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CASE STUDIES IN SUBCONTRACTING

David Anthony Donovan

NAVAL POSTGRADUATE SCHOOL
Monterey, California

THESIS

CASE STUDIES IN SUBCONTRACTING

by

David Anthony Donovan
and
Charles Russell Privateer

Thesis Advisor: CDR P. DeMayo, SC, USN

March 1974

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Approved for public release; distribution unlimited.

Case Studies in Subcontracting

by

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

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ABSTRACT

Subcontractors play a significant role in government procurement and are essential to an effective procurement process. Current estimates of DOD procurement show that at least 50 percent of prime contract funds are subcontracted. A series of three case studies has been developed to illustrate major concerns in subcontracting. The cases are designed to introduce the student to subcontracting and to the specific procedures and requirements of Contractor Procurement System Reviews, subcontract review and consent by the government, and subcontractor source selection. Particular attention has been paid to an examination of subcontracting from the point of view of both the prime contractor and the government as well. Teaching commentaries are included to assist the instructor.

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I. INTRODUCTION

Subcontracting is becoming increasingly important in government procurement. With fewer and more expensive major weapon system acquisitions, the government is specifying prime contracts that require a large portion of the work be subcontracted. In 1970, an estimated 50 cents out of every DOD prime contract dollar went to subcontractors.[1] The Apollo program alone included some 20,000 subcontractors. In such circumstances the government could hardly choose to deal directly with each subcontractor. But even in programs where the number of subcontractors is relatively small, any three party arrangement would be highly unworkable. Thus the prime contractor is tasked by the government to manage all subcontractors supporting a given prime contract.

While the prime contractor is the manager of all subcontracts, the government has developed numerous requirements which impact directly on the subcontractor. These range from socio-economic objectives to technical specifications and accounting procedures. Usually these requirements are stated in the prime contract which specifies that the provisions "flow-down" in any subsequent subcontract. When a

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[1]U.S. Comptroller General Report B-169434, Need to Improve Effectiveness of Contractor Procurement System Reviews, 18 August 1970, p. 4.

subcontractor enters into a subcontract he agrees to adhere to these requirements. Despite the many government requirements laid on a subcontractor, he has no formal direct access to the government. The subcontractor has no privity or legal relationship with the government. By and large government-subcontractor interaction takes place through the prime contractor.

The first case deals with the Contractor Procurement System Review Program. The case illustrates a typical contractor procurement organization and describes the process by which the government insures that a contractor's procurement practices meet certain standards of efficiency, effectiveness, and contractual compliance. In the second case the student is introduced to the process by which a government contracting officer reviews a proposed subcontract submitted by a contractor for government consent. Make-or-buy considerations are also introduced. Case number three outlines a typical source selection procedure used by a major defense contractor in awarding subcontracts. Source selection policy and the mechanical details of source selection are discussed, as well as controversial aspects of negotiated procurement and source selection.

Each case lends itself to analysis by the student and the development of alternative solutions. In addition, each case illustrates the flexible role of the government contract

administration organization in subcontracting and some of the considerations which bear on the extent of government involvement in subcontracting.

II. THE CONTRACTOR PROCUREMENT SYSTEM REVIEW: A CASE STUDY

A. INTRODUCTION

1. Case Brief and Objective

The purpose of this case is to introduce the student to the Contractor Procurement System Review Program. The case will illustrate the performance of a procurement review at a contractor's plant and the evaluation process subsequently performed by the cognizant Government agency. By this means the student will gain an understanding of the review process and will be made familiar with typical contractor procurement statistics and their significance.

2. The Contractor Procurement System Review Program

The Contractor Procurement System Review (CPSR) Program is a program by which the DOD reviews the procurement systems of certain contractors who are performing under Government contracts. Authority for the program is derived from Title 10 U. S. Code 2306(e). Section XXIII (Part One) and Supplement Number One of the Armed Services Procurement Regulations implement the CPSR program within the DOD.

The purpose of the CPSR program is to determine whether the contractor is in compliance with statutory requirements and prime contract clauses and provisions related to purchasing and subcontracting. Reliance upon a contractor's approved procurement system will usually obviate the

need for reviewing and consenting to individual subcontracts. The objectives of the review are to provide:

1. a means for evaluating the efficiency and effectiveness with which the contractor spends Government funds;

2. the basis for the administrative contracting officer to grant, withhold, or withdraw approval of the contractor's procurement system;

3. reliable current information to the procuring contracting officer on the contractor's procurement system for use in source selection, determining the appropriate type of contract, and establishing profit and fee objectives;

4. an independent review of the contractor's procurement system to optimize its effectiveness in complying with Government policy; and

5. current procurement system information for appropriate DOD activities in areas of Government interest.

Several types and variations of a CPSR are performed under the program. An Initial Review is a complete, intensive analysis of a contractor's procurement system which is being reviewed for the first time. This review will result in a written report and, upon correction of deficiencies, approval of the contractor's procurement system. Subsequently, the cognizant Administrative Contracting Officer (ACO) must make a determination annually of the need to make a follow-up review. These Subsequent Reviews as they are called should generally be limited to areas of weakness or special importance; however, at the discretion of the ACO, they may be as extensive as the Initial Review. Again a written report will be made. Should the ACO decide that a

Subsequent Review is not needed during a given year, this fact must also be documented.

If approval of a contractor's procurement system is withheld or withdrawn, a follow-up review will be made as soon as the contractor has completed corrective action. This review is performed in a manner similar to the Subsequent Review, but is structured to test the areas of weakness previously noted. Once again a written report is made.

An Initial Review of a contractor's procurement system shall be made when he is expected to have sales to the Government in excess of $5,000,000 during the next twelve months on other than firm fixed-price with escalation contracts. In addition, consideration shall be given to conducting a CPSR when sales to the Government on non-competitive negotiated contracts (including modifications to competitively awarded contracts), regardless of contract type, are expected to exceed $5,000,000 either alone or in combination with the previously mentioned criteria.

The CPSR program is carried out by the Defense Contract Administration Service and by the military services under the Plant Cognizance Program. Under the direction of a Procurement Methods Analyst, a CPSR gives special attention to the following areas of a contractor's procurement operation:

1. the degree of price competition obtained;
2. pricing policies and techniques, including methods of obtaining accurate, complete, and current cost and pricing data, and certification as required;

3. the methods of evaluating subcontractors' responsibility;

4. the treatment afforded affiliates;

5. types of subcontracts used;

6. practices pertaining to small business and labor surplus area programs;

7. attention given to the management of major subcontract programs.

The review of a contractor's procurement system must determine whether subcontracting is done competitively insofar as possible. This requires ascertaining whether:

1. a sufficient number of sources are solicited; and

2. subcontracting procedures provide other elements of adequate and effective price competition, including -

   a. adequate descriptions of any factors to be evaluated and

   b. evaluation of all offers on a common basis.

The scope of the CPSR Program is illustrated by the following summary for the year ending 1971:

Contracts Administered by DCAS	-	170,000
Number of Contractors	-	15,000
Face Value of Prime Contracts Administered	-	$49.0 Billion
Prime Contractors in CPSR Program	-	171
Contractors with Approved Systems	-	140
Contractors with Non-Approved Systems	-	20
Contractors Awaiting Initial Review	-	11
Face Value of Prime Contracts Held By CPSR Contractors	-	$20 Billion

Percentage of Contractors Covered by CPSR Program	-	1%
Percentage of Dollar Value of Contracts Covered	-	41%

The CPSR Process typically consumes about nine weeks from commencement of planning the review until a final determination of the status of the contractor's procurement system is made. The first key event in the process is an Entrance Conference during which the review team outlines for the contractor what the team intends to learn from the review and how the review will be carried out. The detail work of the review requires from two to three weeks: interviewing contractor and DCASO personnel, reviewing procurement directives and contract files, and analyzing purchasing data. Areas to be looked at and techniques to be employed are spelled out in a DOD Manual for CPSR's. An additional week is needed to prepare a report of the review, after which an Exit Briefing is held to discuss with the contractor those areas which will generate recommendations.

Upon return to DCASR headquarters, the CPSR team must present its report to a CPSR Board. Members of the CPSR Board are selected from within the Directorate of Contract Administration at DCASR. The Chief, Contractor Systems Review Branch, who is also the immediate supervisor of the members of the review team, normally serves as chairman of the CPSR Board. The Board in turn prepares a final report with a recommendation to the ACO to approve or withdraw approval of the contractor's procurement system.

Only after the ACO takes this final action is the contractor officially apprised of the findings and recommendations from the review.

3. Government Contract Administration

Major contract administration responsibility within DOD rests with the Defense Contract Administration Services (DCAS) under the Defense Supply Agency. This responsibility is dispersed geographically among eleven DCAS Regions with DCASR headquarters located in eleven major cities. The regions are further subdivided into district and plant offices, as necessary, in relation to the volume of defense contracts in areas across the country.

DCAS exercises primary responsibilities in Government-contractor relationships. Major functional areas in which DCAS is involved include the following:

1. Contract administration
2. Production management
3. Quality assurance
4. Industrial security
5. Data and financial management
6. Support to small business and labor surplus area programs
7. Miscellaneous tasks, including implementation of the Contractor Procurement System Review Program.

The principle field organization element of the DCAS system is the region headquarters or DCASR. A typical DCASR is organized into Directorates of Contract Administration,

Production, and Quality Assurance. In addition, there are Offices of Contracts Compliance, Engineering, Industrial Security, Planning and Management, Finance and Accounting, and Small Business.

While the bulk of defense contracts are administered by the DCAS field organizations, a substantial number of contracts are administered by other defense agencies and activities, including the military services. Certain plants and facilities of manufacturers have been assigned to the military departments for contract administration services under the Plant Cognizance Program. Contracts performed at commercial shipyards are administered by the Navy. The exceptions to DCAS jurisdiction enumerated in ASPR 20-703.2 form an extensive list.

When a procuring activity assigns a contract to a DCAS field activity for administration, the degree of the DCAS involvement with the contractor varies from slight to extensive. The type and value of the contract, the period of performance, and the nature of the product are only some of the factors which govern the level of DCAS involvement.

Every contract for which DCAS assumes administrative responsibility is assigned to an Administrative Contracting Officer (ACO). This responsibility is exercised by ACO's located at the various DCASR's and also at DCAS offices (DCASO's) at contractor plants.

B. THE CASE PROBLEM

1. The Contractor History and Organization

The Pacific Laboratories Division (PLD) was established in 1961 as a subsidiary of the Farraday Corporation. Since its founding, PLD had concentrated on development and production of special purpose electronic systems for the Department of Defense. The bulk of PLD work involved communication satellite system components. During 1972 there were over 300 employees at PLD and annual sales had climbed to $119,000,000. However in the following year, total sales decreased significantly as two major defense contracts were completed. The scope and nature of PLD's operations is indicated by the following data:

Government vs Commercial Sales ($000)

	1972	1973
*Government	$105,100	$67,403
Commercial	14,500	20,269
Total Sales	$119,600	$87,672

* Includes prime contracts only.

Types of Government Contracts Held ($000)

	1972	1973
FFP	18% ($18,600)	48% ($32,180)
NON-FFP	82% ($86,500)	52% ($35,223)

The organization of Pacific Laboratories was typical of most firms of similar size and business nature. PLD had begun as a small engineering company. Although not apparent from the formal structure, the engineering orientation persisted and was consistent with the firm's image of itself as

a producer of engineering systems of considerable complexity and reliability. The basic PLD organization, less staff divisions, is shown in Exhibit One.

The responsibility for purchasing at PLD was largely centralized in a Purchasing Group under the Production Manager. The company recognized that centralization of purchasing authority was essential if profitability was to be enhanced by purchasing efficiency. Due to the nature of PLD's products, it was necessary to permit engineering personnel some leeway to discuss design and quality requirements with potential vendors. However, once specifications became firm, purchasing assumed full responsibility for the procurement. The organization of the Purchasing Group is shown in Exhibit Two. The magnitude of purchases at PLD during the past two years was:

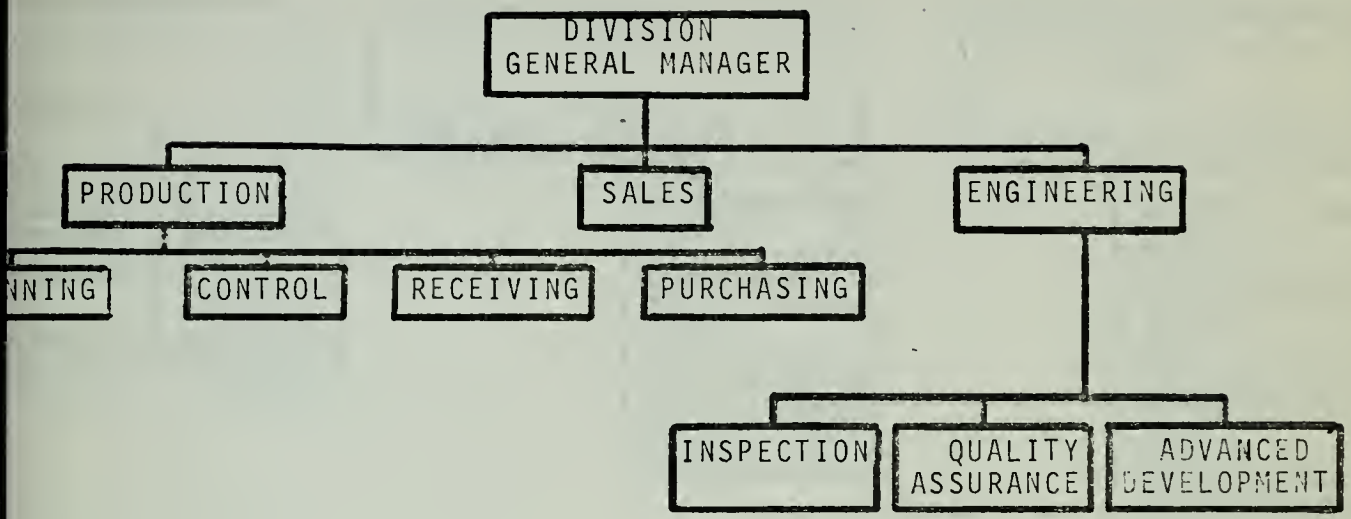
Sales vs Purchases

	1972	1973
Sales	$119,600	$87,672
Purchases	$ 37,717	$22,415
Ratio Purchases to Sales	31%	26%

Personnel Strength

	1972	1973
Purchasing Group	68	54
PLD Total	3141	2713

PLD contracts were initially administered by DCASR, Los Angeles. By 1966, the value of PLD contracts and other factors were sufficient to require performance of contract


DIVISION
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PURCHASING
INSPECTION
QUALITY
ASSURANCE
ADVANCED
DEVELOPMENT

EXHIBIT ONE

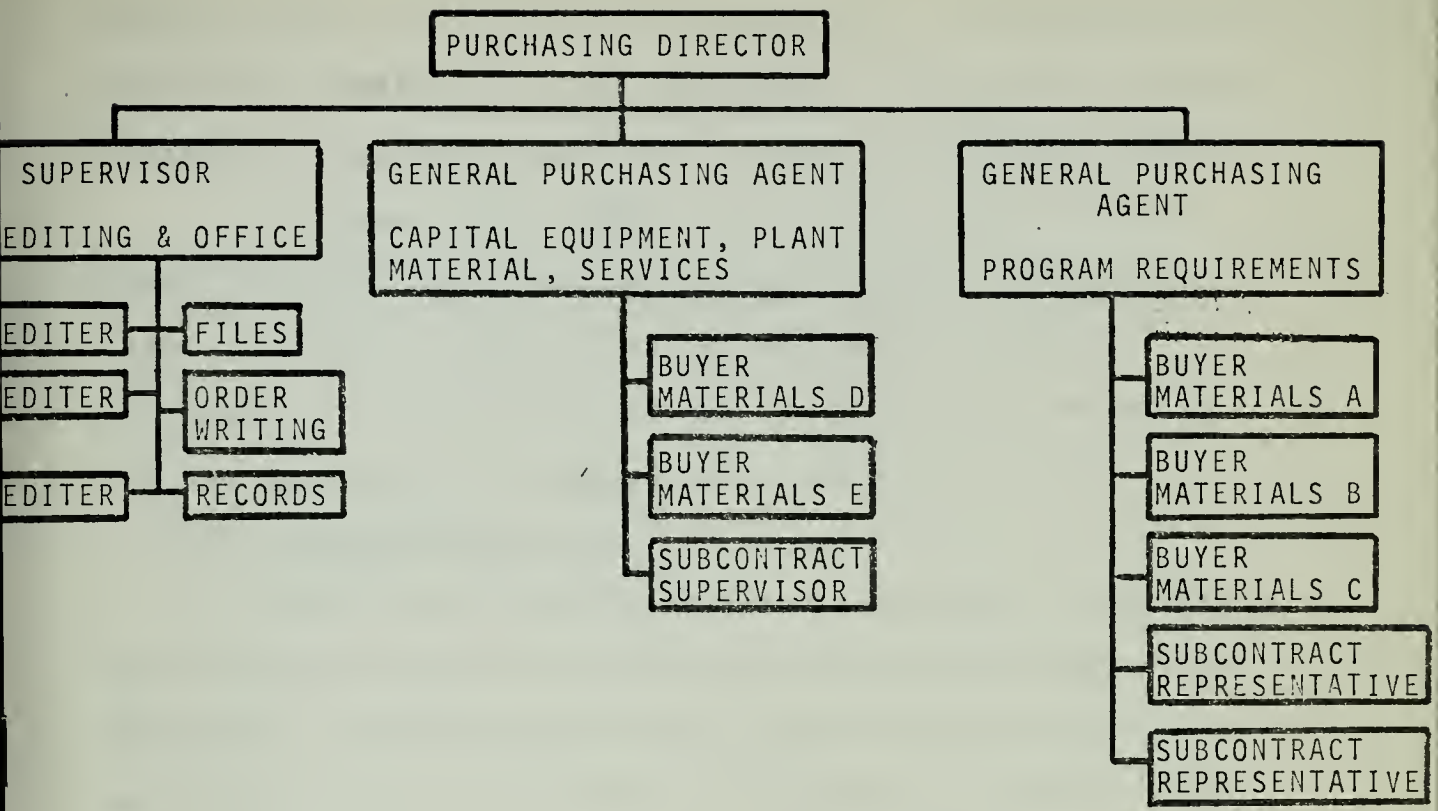
PURCHASING DIRECTOR
SUPERVISOR
EDITING & OFFICE
EDITER
EDITER
EDITER
FILES
ORDER WRITING
RECORDS
GENERAL PURCHASING AGENT
CAPITAL EQUIPMENT, PLANT MATERIAL, SERVICES
BUYER MATERIALS D
BUYER MATERIALS E
SUBCONTRACT SUPERVISOR
GENERAL PURCHASING AGENT
PROGRAM REQUIREMENTS
BUYER MATERIALS A
BUYER MATERIALS B
BUYER MATERIALS C
SUBCONTRACT REPRESENTATIVE
SUBCONTRACT REPRESENTATIVE

EXHIBIT TWO

administration at PLD on a full time basis. Consequently, a DCASO was established at the contractor's plant and by 1974, twenty five personnel had been assigned (see Exhibit Three).

Both the Chief, DCASO (PLD) and Mr. George Brown, Chief of the Contract Administration Division, were designated Contracting Officers as defined by ASPR 1-201.3. Responsibility for performing ACO functions with regard to PLD was specifically assigned to Mr. Brown.

2. Current CPSR Status

Early in its history Pacific Laboratories' sales to the Government justified inclusion of PLD in the Contractor Procurement System Review Program. But for a lack of personnel resources at DCASR, Los Angeles, an Initial Review of the PLD procurement system was delayed until 1968.

Approval of PLD's procurement system was welcomed by both the contractor and the Administrative Contracting Officer (ACO) at DCASO(PLD). The contractor looked forward to greater freedom in placement of subcontracts and a reduction of administrative lead time. The frequency of requirements for advance notification to and prior consent of the Contracting Officer in placement of subcontracts would be much less. An approved purchasing system gave PLD a real, though immeasurable, improvement in its competitive position relative to future Government work. And finally, the value of Government advice on improving purchasing efficiency could not be ignored.

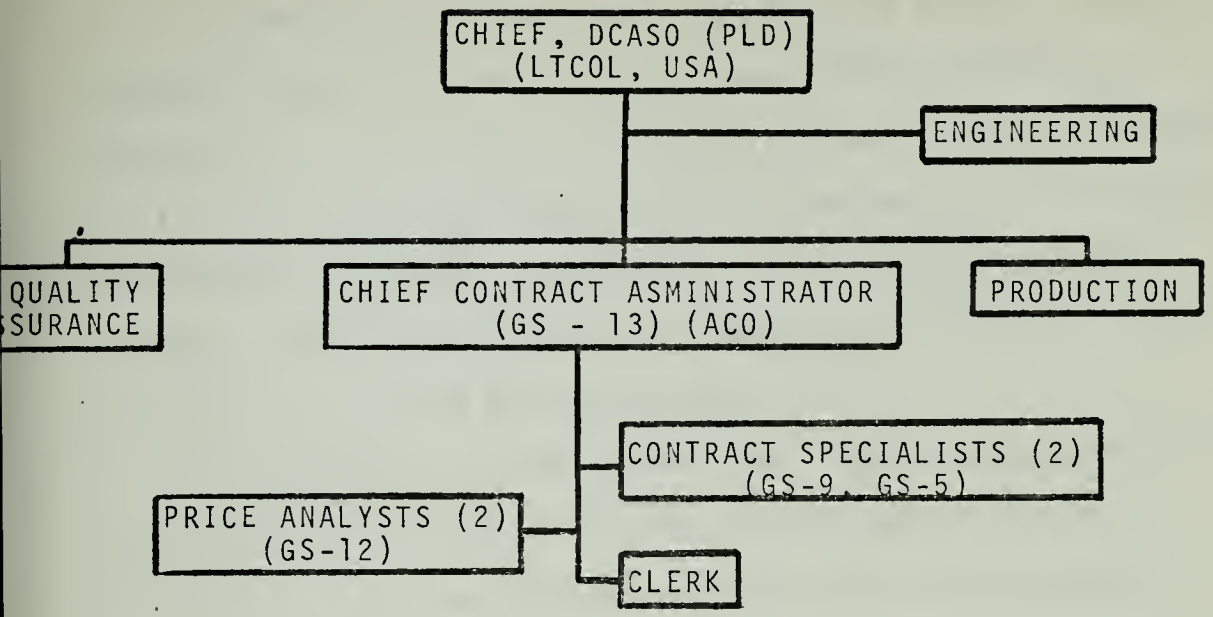

EXHIBIT THREE

For the past two years the ACO and others in the Contract Administration Division had worked with PLD to structure an acceptable purchasing system. While an approved system gave the Government greater assurance of the efficiency with which PLD spent its funds, a more tangible benefit to the ACO was a reduction in the time his office had to devote to overseeing PLD's procurement operations.

In 1974, the ACO, DCASO(PLD), again requested DCASR, Los Angeles, to conduct a Subsequent Review of PLD in accordance with Armed Services Procurement Regulations (ASPR) article 23-101(b). Examination of areas of weakness noted in the 1973 review was requested, as well as the following specific items:

1. the degree of price competition obtained;
2. the methods of evaluating subcontractors' responsibility;
3. pricing policies and techniques, including methods of obtaining accurate, complete, and current cost or pricing data;
4. the treatment afforded affiliated and other concerns having close working arrangements with PLD;
5. the performance of PLD in awarding subcontracts on a competitive basis to the maximum extent possible.

Preparation of the CPSR by DCASR, Los Angeles, was extensive. Agnes Barnum, a senior Procurement Methods Analyst and a GS-12, was assigned as review team captain. Two additional PMA's from DCASR, also GS-12's, were included as members. Pacific Laboratories was informed by letter of

the forthcoming review and the specific areas to be examined. The contractor was asked to make available written material on his procurement organization, procurement directives and policies, and an extensive statistical package on 1973 purchases, including the procurement files themselves.

Early on the first morning of the in-plant review, a meeting was held between members of the review team and key personnel from DCASO(PLD). The meeting served not only a "get acquainted" function but also allowed identification of specific responsibilities of members of the two groups. Much of the information needed by the review team, both written and unwritten, would be provided by DCASO personnel. George Brown, the ACO at DCASO, served as unofficial host. Also present at the meeting was the resident DCAA auditor, a GS-12.

Later that day the Entrance Conference with the contractor was held. The meeting was brief and business-like but friendly. PLD's Production Manager welcomed the CPSR team and outlined the major programs under contract to PLD. The Director of the Purchasing Group then outlined major purchasing operations during the past year and introduced key members of the Purchasing Group. Mrs. Barnum described the areas to be reviewed and expressed her intention to complete the in-plant phase in two weeks time if possible. The conference took less than an hour.

On the following day the review began in earnest. The examination of purchase order file documents is without

doubt a most important part of the review procedure. While a team might like to examine the files for every purchase order placed during the past year, there is not sufficient time to do so. Consequently, review teams examine statistical samples of purchase orders within broad dollar categories, as well as a sample of currently active subcontracts. The process is tedious and time consuming, usually dragging on for a full two weeks. Inevitably, questions are raised requiring discussion with DCASO contracts personnel and members of the contractor's purchasing group. Consequently, completion of the statistical sample provides the review team not only with raw data but considerable insight into how the contractor does his purchasing. Following is a summary of the statistical sample produced during the PLD review:

UNIVERSE	OVER $100,000	$25,000 to $100,000	$10,000 to $25,000	UNDER $10,000	TOTAL
Total No. of POs	17	64	136	24,744	24,961
Value($000)	$5,400	$2,900	$2,300	$7,308	$17,908
Selected Sample					
Total No. of POs	12	21	17	19	69
Value($000)	$2,252	$1,002	$262	$79	$3,595

Total Dollar Value of Universe ($000):	$17,908
Total Dollar Value of Sample ($000):	$3,595
Percentage:	20%

A principle task of the CPSR team is to determine the extent to which purchasing (subcontracting) is done competitively to the maximum extent possible. Thus the purchase order sample was subjected to analysis of the following kind:

Price and Cost Analysis Performed on Subcontracts Awarded Without Adequate Price Competition

		1973	1972
a.	Price Analysis	No. of Value Orders/($000)	No. of Value Orders/($000)
	Applicable	27/$866	42/$2,205
	Accomplished	22/$656 (82%)/(76%)	42/$2,205 (100%)/(100%)
	Accomplished effectively	19/$534 (86%)/(81%)	41/$2,194 (98%)/(99%)
b.	Cost Analysis		
	Applicable	10/$1,671	5/$1,695
	Accomplished	9/$1,526 (90%)/(91%)	5/$1,695 (100%)/(100%)
	Accomplished effectively	8/$1,371 (89%)/(90%)	5/$1,695 (100%)/(100%)
c.	Public Law 87-653 (Truth in Negotiations)		
	Applicable	7/$1,508	5/$1,695
	Complied with	5/$1,223 (71%)/(81%)	5/$1,695 (100%)/(100%)

A measure of PLD's pricing policies and techniques, including methods of obtaining accurate, complete, and current cost and pricing data, is apparent from the following table:

Total Number of Subcontracts Over $10,000 Sampled
(Competitive vs. Non-Competitive)

	1973 Number/Dollars($000)	1972 Number/Dollars($000)
a. Total Purchase Orders Reviewed	50/$3,516	91/$10,269
(1) Average Number of RFQs Issued	3.3	3.8

b. Total Awards Made on Basis of Adequate Price Competition (ASPR 3-807.1).

	1973	1972
Orders	13(26%)	44(49%)
Value($000)	$979(28%)	$6,369(62%)
(1) Average Depth of Competition -	1.6	2.9

c. Total Awards Made Without Adequate Price Competition

	1973	1972
Orders	37(74%)	47(51%)
Value($000)	$2,527(72%)	$3,900(38%)

After examining purchasing directives and files for nearly two weeks, during which daily conversations were held with members of the PLD purchasing group, one major task remained for the CPSR team: determining the role of purchasing in the PLD organization. The CPSR team needed to determine also whether other departments shared purchasing authority and influenced purchasing decisions at the expense of the Government. While the team had by now some ideas on these questions, written policy directives and organization charts did not provide a complete answer.

Contractors frequently employ the project manager concept in performing defense contracts. PLD was no exception.

The project managers worked across departmental lines, dividing their time among engineering, production, purchasing, and even marketing. This gave the project managers a perspective of the company which could not be gained from looking at each department individually. By interviewing several project managers, Agnes Barnum was able to gain a better understanding of the extent to which production and engineering influence purchasing decisions. As it happened, PLD project managers also chaired make-or-buy committees, another area of concern to the CPSR team. In this way the team was better able to interpret the following data derived from the statistical sample:

Predominant Justification for Subcontracts Awarded Without Adequate Price Competition

		1973	1972
		No. of Orders/Value ($000)	No. of Orders/Value ($000)
a.	Customer Directed	6/$444	5/$188
b.	Engineering Directed	13/$680	14/$513
c.	Proprietary Items	6/$789	2/$568
d.	Only Supplier Qualified	1/$11	14/$1,857
e.	Economically Justified (tooling, qualification test, delivery, logistics cost)	1/$29	6/$222
f.	Other Justification	10/$584	6/$552
g.	No Justification	0	0
	TOTALS	37/$2,537	47/$3,900

On the last day of the in-plant review, an Exit Briefing was held with PLD management to present the general observations of the review team. The discussion included areas found to be deficient and other observations made by the review team. No specific recommendations could be announced at this time, nor could the decision to continue or withhold approval of PLD's procurement system be discussed. These decisions had to await CPSR Board review and, ultimately, final determination by the ACO. However, it was clear that the review team had not been impressed with the PLD operation this year.

3. Preliminary Case Requirement

a. With regard to the Statistical Data presented thus far, what trends are evident in the contractor's operations? What are the underlying reasons for such trends?

C. CPSR RESULTS AND CASE REQUIREMENTS

1. Findings and Recommendations of the Contractor Review Team

A CPSR Board was convened at DCASR, Los Angeles, two weeks after the review team departed the PLD plant. During this period a CPSR report had been completed and copies submitted to each of the three members of the Board for their study. The Board was empowered to modify, add, or delete any recommendations concerning the contractor's procurement system, and to make a written recommendation to the ACO concerning continued approval status.

In addition to the Board members, the meeting was attended by the ACO, DCASO(PLD) (George Brown), and Agnes Barnum, CPSR team captain. At the request of the Board, Mrs. Barnum summarized the report, concluding with the following remarks:

"The review disclosed deterioration in some of the significant areas of PLD procurement operations. Vendor delivery delinquencies continue as a serious problem area. The incidence of competitive procurement has decreased to 26%, and the index of quotations has dropped to an average of 1.6 responsive quotes for all orders examined.[1] The contractor's performance under ASPR and contractual requirements for implementation of Public Law 87-653 is less than minimal and warrants significant improvement. Furthermore, price analyses of procurements under $100,000 are less than satisfactory. Based on these findings, the CPSR team recommends that approval of the contractor's procurement system be withdrawn."

Mrs. Barnum then drew the attention of the Board to the statistical summary of PLD procurement, including the following tables (not previously presented):

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1. The index of quotations is the average number of responsive quotes per solicitation.

Purchase Orders Lacking Adequate Negotiation

	1973	1972
Number	3	1
Value ($000)	$379	$ 11

Purchase Orders Lacking Adequate Documentation

Number	12	2
Value ($000)	$878	$184

Expediting and Follow-Up Purchase Orders

Number of POs Reviewed	50	91
Number of POs Delinquent	21	44
Number of POs Delinquent in excess of 15 days	16	33

Type of Subcontracts Used for Awards

	1973	1972
	No. of/ Value*	No. of/ Value*
FFP	48/$3,326	88/$10,173
NON-FFP	2/$190	3/$96

*($000)

The Board Chairman thanked Mrs. Barnum for her report. Then George Brown was asked if he had any comments to offer on the results of the review. George was well acquainted with the members of the Board having worked with them during a prior assignment at DCASR. Thus he felt no reticence in offering his opinion and welcomed the opportunity.

George began by acknowledging the validity of the report's findings. "I agree with the deficiencies cited in the report and noted by Mrs. Barnum. But I don't agree that they justify penalizing the contractor and the Government by withdrawing approval.

"There are no definitive standards for judging a contractor's procurement system, beyond a basic compliance with the law, with ASPR, and the terms of his contracts. So I think these deficiencies should be weighed in relation to the business problems PLD faces and our experience in doing business with him.

"For one thing, there was only one deficiency left over from last year's review-vendor delinquency. And if you ask me, a lot of this problem is due to Government change orders and administrative delay. The point is, though, that he corrected eleven other deficiencies, which is more than some contractors are willing to do."

The Board Chaiman interrupted to agree that motivating contractors to make needed improvements in their procurement methods was a continuing problem.

George continued. "Last year, PLD merged with another Farraday division. Purchasing lost out in the organizational shuffle. This may account for the apparent lack of internal review of non-competitive awards at PLD and the strong influence Engineering seems to have on source selection. But I am sure PLD will reconsider the organizational structure in light of the CPSR report.

"In addition, the high percentage of non-competitive awards is not necessarily indicative of poor procurement practice. Neither is the low index of responsive quotes. PLD's ratio of purchases to sales is fairly low. They make high quality, specialized products. The volume of work they can offer to any one supplier is not great. Not many vendors find PLD as attractive a customer as the firms in the area making commercial electronic equipments. Subcontracting with PLD is an administrative hassle which many suppliers prefer to avoid. The result is a reluctance to bid on PLD proposals."

"What you are saying," remarked Mrs. Barnum, "is that we should adjust the CPSR Program to fit PLD's particular circumstances."

"That's exactly right," replied George. "The adjustment takes place when the CPSR Board reviews the report and takes what it considers to be appropriate action.

"There are some areas where PLD needs to improve and I feel they will respond to our recommendations to do so. But if the subcontracts environment PLD faces is not conducive to competitive procurement, then withdrawal of his procurement system approval won't alter that situation. It will drive up costs, though. Currently, PLD allocates $200 of administrative cost to each purchase order over $25,000 which has to be processed for ACO consent. There will be other disfunctions too, also counter to the Government's

interests. We simply don't have the resources at DCASO(PLD) to revert to reviewing virtually all of the contractor's purchases on a real-time basis."

George concluded with a recommendation that the Board continue PLD's procurement system appproval. The Board then adjourned the meeting to consider its decision.

2. The Case Requirements

The student is to prepare responses to the following questions:

a. What is your evaluation of George Brown's argument to the CPSR Board?

b. What action should the CPSR Board take and why?

D. TEACHING COMMENTARY

1. Introduction

The case is based on the actual CPSR history of a division of a major corporation whose contracts are administered by the DCAS organization. The statistical information provided throughout the case is actual data. George Brown's outspoken role in the CPSR Board proceedings was invented to introduce controversy. It represents a realistic point of view, however, since an approved procurement system benefits both contractor and ACO.

The CPSR in question resulted in withdrawal of approval of the contractor's procurement system. Beside the deficiencies noted in the case, the contractor also had some minor weaknesses in pricing intercompany transactions.

Following the review, the contractor worked closely with the DCASO in making needed improvements in his operation. Corporate headquarters displayed strong interest in the CPSR problems of this division. Several key procurement personnel were discharged from the company following this review. A Follow-Up review was held six months later and approval status reinstated.

The CPSR program involves a significant intrusion into a contractor's affairs. For this reason DCAS tries to emphasize the positive aspects of the program by pointing out that the purchasing efficiency inherent in an "Approved procurement system" leads to increased profits. Of course fixed-price contractors hardly need to be reminded of this.

To a slight extent the CPSR program contains its own elements of office politics. It is not unusual for CPSR teams to be regarded as spies from headquarters by the DCASO's whose contractors are being inspected.

When a contractor's approval status is lost, both the Government and the contractor suffer. The ACO's workload can increase significantly in the area of advance notification and consent. But on the other hand contractors are not well motivated to implement CPSR recommendations so long as they retain approval status.

ASPR provides advantages to contractors possessing approved procurement systems, in the area of source selection, profit and fee determination, and type of contract. However, it is doubtful that PCO's are significantly influenced by these provisions.

Surveillance of a CPSR contractor by a resident PMA, while still provided for in ASPR, has been abandoned by DCAS. This action was probably taken in response to GAO criticism.

2. Discussion Questions

a. With regard to PLD, whattrends are evident from the Statistical Summary: What is their signficance to the CPSR review team?

Total sales have declined due to the reduction in sales to the Government. There was some growth in commercial sales but not enough to prevent the company from having to cut costs wherever it can. The number of personnel in the Purchasing Group has been cut, probably below the level needed. The review team might expect to find a less than thorough procurement operation. There is a significant decrease in PLD's purchases as a percent of sales; 26%, as against 31% in 1972. The possible causes are numerous; the general economic and Defense turndown, high material prices which encourage use of inventories with minimal or postponed replacement, and the tendency to bring work in house during times of economic difficulty. As a result of this trend the CPSR team should give careful attention to contractor's Value Engineering and Make or Buy Programs.

b. What is your evaluation of George Brown's argument to the CPSR Board?

George is correct in noting that there are no rigid standards to apply in considering approval of a contractor's procurement system. Most procurement functions

cannot be reduced to stereotyped standards, and hence there must be a certain degree of flexibility in the guidelines for the CPSR Program. The ultimate decision stemming from these reviews must be based on judgment.

While the contractor may have a good record in correcting deficiencies, this fact is largely irrelevant to judging his procurement system. Similarly, although organizational problems may explain PLD's procurement deficiencies, they do not excuse them.

George alleges that PLD is unable to attract sufficient sources to do much competitive procurement. If this is true, the contractor is obliged to recognize this situation and then demonstrate effective cost or price analysis of non-competitive procurements. Yet his performance in this latter category is less than satisfactory. Finally, the added administrative costs, the delays, and other effects of withdrawing approval, although regrettable, should in no way influence the Board's decision.

c. What action should the CPSR Board take and why?

Following discussion of the previous questions, there is clearly only one proper action for the Board to take -- recommend withdrawing approval of PLD's procurement system. Comparisons between PLD's current procurement statistics and those of the past year indicate significant deterioration of the contractor's system. Article 23-105(a) of ASPR applies. The ACO in turn would be expected to implement the Board's recommendation.

III. SUBCONTRACT REVIEW AND CONSENT BY THE GOVERNMENT: A CASE STUDY

A. CASE BRIEF AND OBJECTIVES

This case has been designed to introduce the basic concepts of subcontract review and consent by the government. Additionally it was endeavored to provide the student with a representative consent package for him to review both for form and content. Make or buy considerations were also introduced.

B. CASE PRESENTATION

In early March 1974, Lieutenant Ralph Sliden reported for duty at DCASD Cleveland. The DCASD supported all the Department of Defense and NASA agencies in their administration of contracts. This was Sliden's first procurement billet after his procurement school and he was anxious to get involved in the procurement process. After a brief office orientation he was granted a warrant as a contracting officer and assigned as Administrative Contracting Officer, ACO, for several contracts.

To carry out his duties properly Lieutenant Sliden undertook a detailed review of each of his assigned contracts, the record of negotiations and the applicable provisions of the Armed Services Procurement Regulations (ASPR). Most of the common responsibilities are spelled out in ASPR paragraph 1-406. He also sought to become more familiar with each of

the companies with which he would be dealing. The information required for the review was readily available from knowledgeable personnel in the office and from such reports and publications as pre-award surveys, Defense Contract Audit Agency findings, Contractor Procurement System Review (CPSR) Reports, Moody's Handbooks, Standard and Poors, contract status files and others.

One of the more important government contracts assigned to Sliden was cost plus fixed fee contract valued at $3,977,257 with Interallied Aerospace Corporation (IAC) for the development of a radio telemetry measuring device. IAC, a multi-divisional company, was awarded the contract in September 1973 and was expected to complete the development in March 1975. The company's antenna division based in El Gordo was scheduled to do the majority of the work with some assistance from other divisions. The antenna division with its 5000 employees was one of the smaller divisions within IAC whose total employment was approximately 50,000. IAC had numerous contracts both fixed price and cost type with several DOD agencies. All information available to Sliden indicated that satisfactory progress was being made in the performance of the contract.

The radio telemetry measuring device, viewed as a significant advancement in electronic warfare, was required as soon as possible for deployed forces. Prior to the contract award to IAC the basic scientific concepts of the device had only been demonstrated under laboratory conditions. Its

feasibility and level of effort for development was still largely unknown. For these reasons the government desired to provide in the contract for the maximum engagement possible between the procuring hardware command and IAC. Additionally, engagement was formally encouraged to permit the government to update the contractor's efforts as information was received from the field further defining the requirements for the device.

In reviewing the radio telemetry contract Lieutenant Sliden did not notice any extraordinary items. It contained the standard type of make or buy list and clause and the subcontractor consent clause along with many other required clauses. Briefly stated, the make or buy provision of a contract is an attempt to determine prior to contract award, what plans the contractor has to either buy subassemblies/ parts through the use of subcontractors or make the items in house, what the cost, schedule, performance, management and other considerations involved are, and what is in the best interest of the government as regards make or buy. The subcontract consent or approval clause in a contract contains a procedure that permits the government, in certain prime contract types, to review proposed subcontracts for their suitability. Suitability ranges from proper subcontract type to adherence to socio-economic guidelines. For more detailed information regarding make or buy and consent the appropriate excerpts from ASPR are contained in Appendices 1 and 2.

The procurement file did show that IAC's procurement system had recently been reviewed and approved by the CPSR board. From the notes and memoranda provided by the contract negotiator it was evident that the contract's make or buy list was reviewed at length to ensure successful development of the device at the lowest practicable cost. It had been IAC's position that the device could be developed inhouse with only minimum subcontractor support. It was the government negotiator's position that several subassemblies embodied in the device have been in development and/or production for years by other companies while IAC would have to develop that capability. IAC had responded that some design and startup costs would be incurred but the overall procurement cost would be less if developed inhouse as sizeable economies in subcontract procurement and interface integration efforts would be realized. IAC's position was finally accepted by the negotiator and the make or buy plan was approved. The buy portion of the make or buy list totaled less than $100,000 with no single procurement more than $25,000.

On Tuesday, 12 March 1974, Lieutenant Sliden received a subcontract consent package, under the radio telemetry prime contract, from IAC. The proposed subcontract for research and development of an antenna subassembly was a fixed price subcontract for $104,688 with Raysonream Raytronics, (RR) a regular supplier to IAC (see exhibits 1-5). Raysonream was known in the industry as a fine basic research, development,

and production firm. They had submitted a proposal for the original radio telemetry prime contract but had been dropped from competition when final negotiations with IAC commenced.

Sliden's initial reaction was one of surprise because he hadn't expected a subcontract of this size. He decided that a thorough review was in order. To properly do this he decided he should first determine the answers to two questions: what responsibilities does a prime contractor have in the placement of a subcontract and, what responsibilities and options does the ACO have in consenting to a subcontract? Based on the answers to these questions he would then review this particular subcontract consent package.

PREAWARD PROFILE FOR SUBCONTRACT Z53Q72

NUMBER OF RFPs ISSUED: 3 DATE ISSUED 1 FEB. 74

DATE DUE 1 MAR. 74

NUMBER OF PROPOSALS RECEIVED: 1

LONE BIDDER

Raysonream Raytronics
Vin Rose, California

NEGOTIATIONS START DATE: 8 MAR. 74

CONTRACT SIGNED: 12 MAR. 74

CONTRACT TYPE:

Firm fixed price

CONTRACT PRICE:

$104,688

CONTRACT DELIVERY DATE:

30 APR. 74

CONTRACT REQUIREMENT:

1. Antenna subassembly capable of meeting specifications of Interallied Aerospace Corp. drawings #5859QP743-7 and 5859QP743-8 and work statement 5859PP001 dated 28 January 1974.

EXHIBIT (1)

STATEMENT OF WORK 5859PP001

Subcontract #Z53Q72

1.0 The contractor shall provide one (1) antenna subassembly (AS) for use in the radio telemetry measuring device, APD47-552.

2.0 The AS shall meet the following requirements:

2.1 The configuration and performance shall conform to the envelope specified in plans #5859QP743-7-8.

2.2 The antenna shall be weighted and balanced to provide proper center of gravity. (Weights shall be secured to casting sufficiently to withstand drops and other tests as specified in AS-2227).

2.3 Mating surfaces shall be compatible to the antenna subassembly mount produced by IA.

2.4 Material shall be of sufficient strength to withstand the physical environment specified in paragraph 3.2.5 of AS-2227.

2.5 The AS shall be supported by RR for all field failures with RR maintaining item during system tests.

6 March 1974

EXHIBIT (2)

MEMORANDUM OF NEGOTIATIONS

Subcontract #Z53Q72

INTRODUCTION

Negotiations were conducted on Friday 8 March 1974 in Interallied Aerospace building 52, Conference Room 2, to arrive at a firm fixed price for subcontract #Z53Q72. The subcontractor firm is Raysonream Raytronics (RR) of Vin Rose, California. The subcontract effort is to develop an antenna subassembly capable of meeting the requirements of Interallied Aerospace Corporation drawings #5859QP743-7,-8 and work statement 5859PP001 dated 6 March 1974.

Those in attendance at the negotiations were:

Raysonream Raytronics

P. P. McMacton, Vice President, Finance

D. A. Dreepy, Vice President, Engineering

Interallied Aerospace Corporation

R. F. Smith, General Procurement - Chairman

A. B. Seretti, Program Office

T. A. Bidbadwell, Subcontract Cost Analysis

ESTABLISHING THE REQUIREMENT

The meeting began at approximately 8:30 A.M. After the principals had been introduced the RR representatives were furnished a copy of the work statement dated 6 March 74 and a copy of the firm fixed price contract. The two documents had been prepared in confirmation of earlier telephone conversations between the parties. The work statement, the

subcontract document and the supporting drawings were reviewed and all participants agreed they understood them.

It was further agreed that the RR proposal was essentially responsible to the requirements and that a minimum of effort would be required to negotiate a firm fixed price contract.

TERMS AND CONDITIONS

It was pointed out that the terms and conditions were as stated in the proposed subcontract. Time was critical but as RR had experience in this area the group concluded that the procurement centered on the development of known technology items rearranged into a somewhat different configuration. Development efforts would be directed toward elimination of possible interface problems, occurring as a result of the component rearrangement.

The RR representatives were asked if they had any questions concerning the IAC drawings #5858QP743-7,8 or the statement of work #5859PP001 dated 6 March 74 and they replied that the requirements were understood.

DD FORM 633 PROPOSAL

The data supporting the DD Form 633 dated 9 Feb. 74 was next reviewed.

DIRECT MATERIAL - SUBCONTRACTED

None

EXHIBIT (3)- 2

DIRECT MATERIAL - RAW MATERIAL

The proposed value was $10,659.32. Mr. Dreepy was questioned concering the applicability of item 11, a tool for $190.00. The RR representative allowed that the tool's useful life would extend far beyond the life of the sub-contract and the $190.00 should be deleted.

The total for this element was then agreed as follows:

Proposed $10,659 IAC $10,469 Agreed $10,469

MATERIAL OVERHEAD

The proposed rate is 11.24%.

The proposed value is 11.24% x 10,659.

This element consists of an overhead factor applied against the direct material.

The RR representatives when queried how 11.24% was arrived at responded that it was calculated using last year's historical cost data adjusted for the current rate of inflation as measured by the wholesale price index.

Since the direct material has been reduced IAC reduced the material overhead proposal accordingly.

Proposed $1198.07 IAC $1176.72 Agreed $1176.72

DIRECT MANUFACTURING LABOR

The proposed value was $ 51,958.

This element is made up of 10 subelements. IAC's evaluation agrees with 8 of the 10. The other two, labor for quality control inspections and labor for shop support, were discussed.

EXHIBIT (3) - 3

Quality Control Requirement

The proposed number of hours for this inspection is 2000. Based on the expected direct manufacturing hours of 571 the proposal of 3-1/2 quality control inspection hours per hour of manufacturing appeared excessive. Mr. Dreepy replied that due to the close requirements of the electrical devices involved such close and continuing inspection was essential. IAC's Mr. Bidbadwell stated that IAC's past experience indicated that three hours per manufacturing hour was the most IAC had ever experienced. After some further discussion it was agreed that 3-1/4 quality control inspection hours per manufacturing hour was acceptable.

Proposed	IAC	Agreed
Hours 2000	1890	1890
Cost $12,700	$12,001	$12,001

Clean Room Requirement

The proposal provides for a total of 1500 man hours of labor in the clean room in addition to the hours noted in other elements. IA's Mr. Seretti questioned both the need for the clean room and the costs involved.

Mr. Dreepy stated that the development technique to be used by RR required the use of the clean room and that its cost was supported by historical cost data.

Proposed	IAC	Agreed
Hours 1500	1500	1500
Cost $9525	$9525	$9525

EXHIBIT (3) - 4

MANUFACTURING OVERHEAD

The proposed rate for 1974 "actual" was $5.50 per hour.

The proposed rate for 1974 "projected" was $6.10 per hour.

The proposed rate of $5.50 was used on those functions that have already occurred and the proposed rate of $6.10 was used in the proposal for those functions expected to occur late in the year. The DCAA audit report recommends a rate of $5.65. Mr. Smith explained that IA was obligated to use the DCAA recommendation rate or go into extensive element-by-element review of the make-up of the rate. RR, Mr. McMacton, agreed to use the rate of $5.65 per hour.

Proposed	IAC	Agreed
571x6.10 $3483	$3226	$3226

GENERAL AND ADMINISTRATIVE

Mr. McMacton reported that the General and Administrative rate on direct manufacturing labor hours applicable to the subcontract would be $17.04 per hour. Mr. Seretti questioned RR's rate as IAC's rate was $12.04 in their comparable divisions. Mr. McMacton replied that contracts/subcontracts for defense related material caused a buildup of personnel required to comply with the necessary reporting and other paperwork requirements. The rate was agreed upon at $17.04.

Proposed $9729 IAC $9729 Agreed $9729

PROFIT

The RR proposal indicates 12% on all costs in the proposal. It was accepted.

EXHIBIT (3) - 5

Proposed		IAC	Agreed
Profit Rate	12%	12%	12%
Profit Value	$11,758	$11,758	$11,214

CHANGES

Mr. Smith proposed that RR accept and incorporate all changes proposed by Mr. Smith or Mr. Seretti. All changes submitted to RR would be priced and agreed upon by both companies prior to their incorporation in the development. This was agreed to by RR.

COMPLETION DATE

The completion date would remain as promulgated in the original request for proposals. Any changes in the date would be handled under the changes clause. Any completion date changes proposed by RR would also be handled as a change and negotiated as such.

TOTAL FIRM FIXED PRICE

Attention was next turned to summarizing the various estimated costs and agreed to prices. They were listed and the final firm fixed price for this subcontract agreed to as follows:

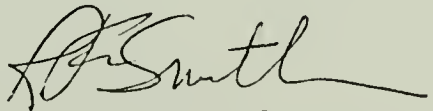
EXHIBIT (3) - 6

Cost Element	Proposed	IAC	Agreed
Direct Material, Raw Material	$10,659	$ 10,469	$ 10,469
Material Overhead	1,198	1,176	1,176
Direct Manufacturing Labor	51,958	51,259	51,259
Manufacturing Overhead	3,483	3,262	3,262
Other Costs	20,953	17,552	17,552
Subtotal	88,251	83,718	83,718
General & Administrative Expense	9,729	9,729	9,729
Subtotal	97,980	93,447	93,447
Profit	11,758	11,241	11,241
Total Firm Fixed Price	$109,738	$104,688	$104,688

CONCLUSION

After completion of negotiations, each participant reassembled their papers in preparation for adjournment. Mr. Smith advised that he would have to document the details of negotiations and other aspects of the subcontract and then obtain Interallied management approval of the actions taken to date. After that the Interallied customer will be notified of the definitive subcontract and the formal definitive document will be issued for signature. It should be mailed in a few days. Mr. McMacton said that would be satisfactory.

The negotiations were concluded at 6:35 P.M.



R. F. Smith for
INTERALLIED AEROSPACE CORP.

EXHIBIT (3) - 7

CERTIFICATE OF CURRENT COST OR PRICING DATA

This is to certify that, to the best of my knowledge and belief, cost or pricing data as defined in ASPR 3-807.3 submitted, either actually or by specific identification in writing (see ASPR 3-807.3) to the Interallied Aerospace Corporation in support of DD Form 633 dated 9 Feb. 74 for Subcontract #Z53Q72 are accurate, complete and current as of 8 Mar. 74.

RAYSONREAM RAYTRONICS

P. P. McMacton
Vice-President, Finance

9 March 1974

EXHIBIT (4)

DEPARTMENT OF DEFENSE
CONTRACT PRICING PROPOSAL

Form Approved
Budget Bureau No. 22-R100

This form is for use when submission of cost or pricing data (see ASPR 3-807.3) is required

PAGE NO. 1 | NO. OF PAGES 1

NAME OF OFFEROR: Raysonream Raytronics	SUPPLIES AND/OR SERVICES TO BE FURNISHED: Development and Production of Radio Telemetry Antenna Subassembly
HOME OFFICE ADDRESS (Include ZIP Code): 153 North Audley, Vin Rose, California 93939	QUANTITY: 1
	TOTAL AMOUNT OF PROPOSAL: $
DIVISION(S) AND LOCATION(S) WHERE WORK IS TO BE PERFORMED	GOVERNMENT SOLICITATION NO.

COST ELEMENTS		PROPOSED CONTRACT ESTIMATE: TOTAL COST[1]	UNIT COST[2]	REFERENCE[3]
1. DIRECT MATERIAL[4]	a. PURCHASED PARTS[5]			
	b. SUBCONTRACTED ITEMS[6]			
	c. OTHER DIRECT MATERIAL: (1) RAW MATERIAL[7]	10,659		
	(2) STANDARD COMMERCIAL ITEMS[8]			
	(3) INTERDIVISIONAL TRANSFERS (at other than cost)[9]			
2. MATERIAL OVERHEAD[10]		1,198		
3. INTERDIVISIONAL TRANSFERS AT COST[11]				
4. DIRECT ENGINEERING LABOR[12]				
5. ENGINEERING OVERHEAD[10]				
6. DIRECT MANUFACTURING LABOR[12]		51,958		
7. MANUFACTURING OVERHEAD[10]		3,483		
8. OTHER COSTS[13]		20,953		
9. *SUBTOTALS*		88,251		
10. GENERAL AND ADMINISTRATIVE EXPENSES[10]		9,729		
11. ROYALTIES[14]				
12. FEDERAL EXCISE TAX[15]				
13. *SUBTOTALS*		97,980		
14. PROFIT OR FEE				
15. TOTAL PRICE (Amount)		109,738		

I. HAVE THE DEPARTMENT OF DEFENSE, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION, OR THE ATOMIC ENERGY COMMISSION PERFORMED ANY REVIEW OF YOUR ACCOUNTS OR RECORDS IN CONNECTION WITH ANY OTHER GOVERNMENT PRIME CONTRACT OR SUBCONTRACT WITHIN THE PAST TWELVE MONTHS?

☐ YES ☒ NO *IF YES, IDENTIFY BELOW:*

NAME AND ADDRESS OF REVIEWING OFFICE (Include ZIP Code) | TELEPHONE NUMBER

II. WILL YOU REQUIRE THE USE OF ANY GOVERNMENT PROPERTY IN THE PERFORMANCE OF THIS PROPOSED CONTRACT?

☐ YES ☒ NO *IF YES, IDENTIFY ON A SEPARATE PAGE.*

III. DO YOU REQUIRE GOVERNMENT CONTRACT FINANCING TO PERFORM THIS PROPOSED CONTRACT?

☐ YES ☒ NO *IF YES, IDENTIFY* ☐ ADVANCE PAYMENTS ☐ PROGRESS PAYMENTS OR ☐ GUARANTEED LOANS

IV. HAVE YOU BEEN AWARDED ANY CONTRACTS OR SUBCONTRACTS FOR SIMILAR ITEMS WITHIN THE PAST THREE YEARS?

☒ YES ☐ NO *IF YES, SHOW CUSTOMER(S) AND CONTRACT NUMBERS BELOW OR ON A SEPARATE PAGE.*

V. DOES THIS COST SUMMARY CONFORM WITH THE COST PRINCIPLES SET FORTH IN ASPR, SECTION XV (see 3-807.2(c)(2))?

☒ YES ☐ NO *IF NO, EXPLAIN ON A SEPARATE PAGE*

This proposal is submitted for use in connection with and in response to proposed subcontract

253Q72 * and reflects our best estimates as of this date,

in accordance with the instructions to offerors and the footnotes which follow:

*DESCRIBE RFP, ETC.

TYPED NAME AND TITLE	SIGNATURE
P. P. McMacton Vice-President, Finance	P P McMacton
NAME OF FIRM: Raysonream Raytronics	DATE OF SUBMISSION: 9 Feb 1974

DD FORM 1 APR 51 633 PREVIOUS EDITIONS ARE OBSOLETE.

EXHIBIT (5)

PROCUREMENT BY NEGOTIATION

PART 9—Make-or-Buy Programs Policies and Procedures

3–901 Scope of Part.

(a) This Part sets forth policies and procedures for obtaining, evaluating, and agreeing to contractors' proposed "make-or-buy" programs. These techniques are required only where the work is complex, the dollar value is substantial, and there is not adequate price competition. The evaluation of and agreement upon a contractor's proposed make-or-buy program shall be accomplished during negotiations to the extent practicable.

(b) Although there is a relationship among the evaluation and agreement upon a contractor's make-or-buy program, the review and approval of procurement systems (see Guide for Conducting Contractor Procurement System Review (CPSR) (ASPS No. 1)), and consent to subcontracts (see Section XXIII), each is a separate and distinct action and the factors to be considered in each vary.

(c) In order to form a basis for contract negotiations, the make-or-buy program (3–902) submitted with the contractor's proposal should (i) sufficiently identify the important segments of the total effort, and (ii) establish the framework for determining the contractor's in-house effort, the subcontract effort, and the plant workload with attendant overhead costs.

3–902 Make-or-Buy Programs.

3–902.1 *General.* The Government buys management from the prime contractor along with goods and services, and places responsibility on him to manage programs to the best of his ability, including placing and administering subcontracts as necessary to assure performance at the lowest overall cost to the Government. Although the Government does not expect to participate in every management decision, it may reserve the right to review the contractor's management efforts, including the proposed make-or-buy program. In reviewing the content of the proposed make-or-buy program effort should be made to have the prime contractor establish any new facility in or near sections of concentrated unemployment or underemployment and in areas of persistent or substantial labor surplus.

3–902.2 *Definition and Criteria.*

(a) A make-or-buy program is that part of a contractor's written plan which identifies the major subsystems, assemblies, subassemblies, and components to be manufactured, developed, or assembled in his own facilities, and those which will be obtained elsewhere by subcontract. A "make" item is any item produced, or work performed, by the contractor or his affiliates, subsidiaries, or divisions.

(b) Regardless of the type of contract contemplated, information with respect to prospective contractors' make-or-buy programs shall be required in all negotiated procurements except:

(i) when a proposed contract has a total estimated value of less than $1,000,000, unless the contracting officer specifically determines that such information is appropriate;

(ii) in research and development contracts, unless the contract is for prototypes or hardware and it can reasonably be anticipated that significant follow-on quantities of the product will be procured;

(iii) when the contracting officer determines that the price is based on adequate price competition, or established catalog or market prices of commercial items sold in substantial quantities to the general public, or on prices set by law or regulation; or

(iv) when the contracting officer determines that the work is not complex.

(c) Information with respect to make-or-buy programs and the program required to be included in any contract (see 3–902.4) shall be confined to items which, because of their complexity, quantity, or cost or because their production requires additional facilities, normally would require company management review of the make-or-buy decision. As a general guideline, the make-or-buy program should not include items or work efforts costing less than 1% of the total estimated contract price or $500,000, whichever is less. Raw materials and off-the-shelf items shall not be included.

3–902.3 *Procedure.*

(a) When submission of information with respect to a prospective contractor's proposed make-or-buy program is required, the solicitation shall so state and shall clearly set forth any special factors to be used in evaluating the program. After considering such factors as capability, capacity, availability of small business and labor surplus area concerns as subcontract sources, the establishment of new facilities in or near sections of concentrated unemployment or underemployment, contract schedules, integration control, proprietary processes, and technical superiority or exclusiveness, the prospective contractor shall identify in his proposed make-or-buy program that work which he considers he or his affiliates, subsidiaries, or divisions (i) must perform as "must make," (ii) must subcontract as "must buy," and (iii) can either perform or acquire by subcontract as "can make or buy." The prospective contractor shall state the reasons for his recommendations of "must make" or "must buy" in sufficient detail for the contracting officer to determine that sound business and technical judgment has been applied to each major element of the program. When the make-or-buy program is to be incorporated into the contract and the design status of the article being procured does not permit accurate precontract identification of major items that should be included in the make-or-buy program, the prospective contractor shall be notified that such items must be added to the program, when identifiable, under the "Changes to Make-or-Buy Program" clause (3–902.4(b)). The prospective contractor shall be required to include in the information furnished with respect to his proposed make-or-buy program:

(i) a description by which each major item can be identified;

(ii) a recommendation to make or to buy each such item or defer the decision;

(iii) a recommendation as to make-or-buy for any "can make or buy" item;

(iv) the proposed subcontractors, if known, including location and size classification;

(v) designation of the plants or divisions in which the contractor proposes to make the item, whether the facility is in or near section of concentrated unemployment or underemployment; and

(vi) sufficient information to permit the contracting officer to evaluate the proposed program in accordance with (b) below.

Proposed make-or-buy programs shall be evaluated and negotiated as soon as practical after receipt of the contractors' proposals and in any event prior to award.

(b) In reviewing and evaluating a proposed make-or-buy program, the contracting officer shall assure that all appropriate items are included and shall delete items which should not be included. In conducting his review, the contracting officer shall obtain the advice of appropriate personnel including small business and labor surplus area specialists, whose knowledge would contribute to the adequacy of the review. During such review primary consideration shall be given to the effect of the contractor's proposed make-or-buy program on price, quality, delivery, and performance. The contractor has the basic responsibility for make-or-buy decisions. The contractor's recommendations shall therefore be accepted unless they adversely affect the Government's interests or are inconsistent with Government policy. The evaluation of "must make" and "must buy" items should normally be confined to that necessary to assure that the items are properly categorized. The effect of the following factors on the interests of the Government shall also be considered:

(i) whether the contractor has justified the performance of work in plant which differs significantly from his operations;

(ii) the consequence of the contractor's projected plant work loading with respect to overhead costs;

(iii) the contractor's consideration of the competence, ability, experience, and capacity available in other firms, especially small business and labor surplus area concerns (this is particularly significant if the contractor proposes to request additional Government facilities in order to perform in-plant work);

(iv) the contractor's make-or-buy history as to the type of item concerned;

(v) whether small business and labor surplus area concerns will be able to compete for subcontracts; and

(vi) other elements, such as the nature of the items, experience with similar items, future requirements, engineering, tooling, starting load costs, market conditions, and the availability of personnel and materials.

(c) Proposed "make" items normally shall not be agreed to when the products or services under consideration:

(i) are not regularly manufactured or provided by the contractor, and are available—quality, quantity, delivery, and other essential factors considered—from any other firm at prices no higher than if the contractor should make or provide the products or services; or

(ii) are regularly manufactured or provided by the contractor, but are available—quality, quantity, delivery, and other essential factors considered—from any other firm at lower prices

Such items may be agreed to, however, if the contracting officer determines that the overall cost of the contract or of the program to the Government would be increased if the item were bought.

(d) Before agreeing to a "make-or-buy" program to be incorporated into the contract (or, when the program is included in a contract, consenting to a change therein), the contracting officer shall invite the advice and counsel of the activity's small business and labor surplus area specialist by permitting him to review all pertinent facts and make recommendations thereon. The proposed program shall also be made available to the SBA representative for his review and recommendations. Reviews by the small business and labor surplus area specialist and the SBA representative should be scheduled to support the negotiations to be conducted by the contracting officer.

3–902.4 *Incorporation of the Make-or-Buy Program in Contracts.*

(a) Where information with respect to a make-or-buy program has been required to be submitted in accordance with the foregoing, the make-or-buy program, as approved by the contracting officer, shall be included only in cost-reimbursement contracts except:

(i) cost-sharing contracts where the contractor's share is 25% or more;

(ii) cost-plus-incentive-fee contracts having a cost incentive which provides for a swing from target fee of at least 03% and a contractor's overall share of cost of at least 10% (authority may be requested (see 1–109) to exclude the make-or-buy program from other cost-plus-incentive-fee contracts having different incentive and cost-sharing patterns, whenever the contracting officer finds that such other contracts provide sufficient incentive for control of costs); and

(iii) cost-plus-incentive-fee contracts to which 3–902.5 is applicable.

(b) The following clause shall be incorporated in all contracts in which a make-or-buy program has been included.

CHANGES TO MAKE-OR-BUY PROGRAM (APR. 1967)

The Contractor shall perform this contract in accordance with the "make-or-buy" program incorporated in this contract except as hereinafter provided. If the Contractor proposes to change the "make-or-buy" program, he shall notify the Contracting Officer thereof in writing at a time reasonably in advance of the proposed change and shall therewith submit justification in sufficient detail to permit evaluation of the proposed change. Changes in the place of performance of work on any "make" items in the "make-or-buy" program are subject to this requirement. With respect to items deferred at the time of negotiation of this contract for later addition to the "make-or-buy" program, the Contractor shall notify the Contracting Officer of each proposed addition at the earliest possible time, together with justification in sufficient detail to permit evaluation. This contract shall be deemed modified in accordance with such proposed change or addition upon receipt by the Contractor of the Contracting Officer's written approval thereof.

3–902.5 *Price Adjustments.*

(a) The following subparagraphs apply only to fixed-price incentive and cost-plus-incentive-fee contracts.

(b) There may be cases where it is proper to agree that an item of significant value will be "bought" even though it would usually be more economical to have it "made," or vice versa. For instance, the contractor may have a unique capability for low-cost manufacture of a substantial component but his capacity may be full during the period necessary for contract performance, so the component must be subcontracted. In such cases it will be necessary that the "make-or-buy" pro-

gram as approved by the contracting officer specifically call for what would usually be the more costly treatment of the item. In that event the consequent higher costs may be explicitly recognized in establishing the best obtainable contract or target price. Unforeseen changes in the circumstances may arise during contract performance, however, which induce the contractor to propose changing the item from "buy" to "make" (or vice versa). If such a change is made, the element of the contract price which was intended to compensate the contractor for the higher costs flowing from the initial make-or-buy decision would the Government.

(c) When, during the review of the prospective contractor's "make-or-buy" program (see 3–902.3), a situation of the kind described in (b) above is found to exist, the clause set forth below shall be included in the contract, and any "make-or-buy" items of the kind described in (b) above shall be specifically designated in the Schedule (or elsewhere in the contract) as being either a "make" item or a "buy" item, and as being subject to this clause. The make-or-buy program itself and the clause in 3–902.4(b) shall not be included in the contract.

PRICE ADJUSTMENT FOR MAKE-OR-BUY CHANGES (APR. 1967)

This clause applies only to items that are designated elsewhere in this contract as being "make" items or "buy" items subject to this clause. If the Contractor desires to "make" any designated "buy" item or to "buy" any designated "make" item, he shall give written notice to the Contracting Officer reasonably in advance of the proposed change and shall include significant and reasonably available cost and pricing data in sufficient detail to permit evaluation of the proposed change. Promptly thereafter, if the Contractor proceeds with the change, the Contractor and the Contracting Officer shall negotiate an equitable reduction in the contract price* to reflect any decrease in costs which should reasonably result from the change, and the contract shall be modified in writing accordingly. Failure to agree on an equitable reduction shall be a dispute concerning a question of fact within the meaning of the "Disputes" clause of this contract.

*Substitute "target cost and target fee" for "contract price" in cost-plus-incentive-fee contracts.

SUBCONTRACTING POLICIES AND PROCEDURES

Part 2—Requirement for Consent to Subcontracts

23–200 Scope of Part. This Part sets forth the requirements for consent to subcontracts.

23–201 Subcontract Clauses.

23–201.1 *Clause Entitled "Subcontracts" for Fixed-Price Contracts.*

(a) The clause set forth in 7–104.23 shall be inserted in all fixed-price type contracts.

(b) The clause may be modified to:

(i) lower the $100,000 threshold set forth in (ii) and (iii) of paragraph (b) of the clause when it is determined that closer surveillance of subcontracting is desirable because of such factors as the nature of the industry involved, the criticality of work which will probably be subcontracted, the absence of competition in placing the prime contract, uncertainties as to the adequacy of the contractor's procurement system, or the novelty of the supplies or services being procured;

(ii) delete the requirement for advance notification of, or consent to, any subcontracts which were evaluated during negotiations;

(iii) require extraordinary Government surveillance in exceptional cases of subcontracts or classes of subcontracts selected during negotiation. In this event, insert as paragraph (g) of the 7–104.23 clause, the provision set forth under 7–104.23(b).

23–201.2 *Clause Entitled "Subcontracts" for Cost-Reimbursement and Letter Contracts.*

(a) The appropriate clause entitled "Subcontracts" from either 7–203.8 or 7–402.8 shall be included in all cost-reimbursement and letter contracts.

(b) (1) Under cost-reimbursement and letter contracts, other than facilities contracts, consent is required for:

(i) subcontracts for fabrication, purchase, rental, installation, or other acquisition of special test equipment having a value in excess of $1,000 or of any items of industrial facilities; and

(ii) subcontracts for research and development (where the clause in 7–402.8 is used).

(2) Consent is also required for the following additional subcontracts under cost-reimbursement and letter contracts, unless the contractor's procurement system has been approved:

(i) cost-reimbursement, time and materials or labor-hour subcontracts; and

(ii) fixed-price subcontracts exceeding either $25,000 or 5% of the total estimated prime contract price.

(3) See 7–702.33 or 7–703.25 for requirements for approval of subcontracts under facilities contracts.

(c) Purchases by a contractor from General Services Administration supply sources, under a written authorization by the contracting officer (see 5–906), shall be treated as having been made with the consent of the contracting officer as required by the clause set forth in 7–204.28 or 7–403.23.

(d) In exceptional circumstances, certain subcontracts or classes of subcontracts may be selected during negotiation for extraordinary Government surveillance. In such circumstances, insert as subparagraph (j) of the 7–203.8 clause, the provision set forth under 7–203.8(b) or as subparagraph (j) of the 7–402.8 clause, the provision set forth under 7–402.8(b).

23–201.3 *Subcontracts Clause for Time and Materials and Labor-Hour Contracts.* See 7–901.10 for requirements for approval of subcontracts under time and materials and labor-hour contracts.

23–201.4 *Clause Entitled "Equal Opportunity Pre-award Clearance of Subcontracts."* The clause set forth in 7–104.22 and repeated below shall be inserted in all contracts containing any of the "Subcontracts" clauses prescribed by this paragraph 23–201.

EQUAL OPPORTUNITY PRE-AWARD CLEARANCE OF SUBCONTRACTS (1971 OCT)

Notwithstanding the clause of this contract entitled "Subcontracts," the Contractor shall not enter into a first-tier subcontract for an estimated or actual amount of $1,000,000 or more without obtaining in writing from the Contracting Officer a clearance that the proposed subcontractor is in compliance with equal opportunity requirements and therefore is eligible for award.

23–202 Consent to Subcontracts.

(a) In reviewing for the purpose of granting consent, the contracting officer shall consider:

(i) the technical justification for selection of the particular supplies, equipment, or services;

(ii) whether the decision to enter into the proposed subcontract is consistent with the contractor's approved "make-or-buy" program, if any (see 3–902);

(iii) whether the proposed subcontract will require the use of Government-furnished facilities and, if so, whether proper consideration has been obtained;

(iv) the responsibility of the proposed subcontractor (see 1–906);

(v) the basis for selecting the proposed contractor, including the price competition obtained;

(vi) any cost or price analysis or price comparisons accomplished, with particular attention to whether cost or pricing data are accurate, complete, and current, and to whether any required certification has been obtained (see 3–807.3 and 7–104.42);

(vii) the effectiveness of subcontract management by the prime contractor;

(viii) the type of subcontract used (see Section III, Part 4);

(ix) the estimated total extent of subcontracting, including procurement of parts and materials;

(x) the extent to which the prime contractor obtains assurance of the adequacy of the subcontractors' procurement system;

(xi) availability from Government sources of industrial facilities or special test equipment (see Section XIII, Part 3); and

(xii) whether consideration was given to the solicitation of small business and labor surplus area a subcontract sources.

(b) In reviewing subcontracts, careful and thorough evaluation is particularly necessary when:

(i) the prime contractor's procurement system or performance thereunder is considered inadequate;

(ii) subcontracts are for items for which there is no competition or for which the proposed prices appear unreasonable (see 3–807.10(b));

(iii) close working arrangements or business or ownership affiliations exist between the prime and the subcontractor which may preclude the free use of competition or result in higher subcontract prices than might otherwise be obtained;

(iv) a subcontract is being proposed at a price less favorable than that which has been given by the subcontractor to the Government, all other factors such as manufacturing period and quantity being comparable; or

(v) a subcontract is to be placed on a cost-reimbursement, time and materials, labor-hour, fixed-price incentive, or fixed-price redeterminable basis.

Where subcontracts have been placed on a cost-reimbursement, time and materials, or labor-hour basis, contracting officers should be hesitant to consent to the repetitive or unduly protracted use of such type of subcontracts and should follow the principles of 3–803(b).

(c) Consent to a subcontract or relief from the requirement for obtaining consent, by virtue of the approval of the contractor's procurement system, does not constitute a determination as to the acceptability of the subcontract price (23–201) or the allowability of costs (7–203.8 or 7–402.8). However, it should minimize the requirement for retroactive review of subcontracts, except cost-reimbursement subcontracts, for the purpose of determining reasonableness of costs, unless there is some indication that the costs may be unreasonable. In all cases, costs resulting from such subcontracts shall be subject to the test of allocability.

23–203 Disputes and Arbitration Provisions in Subcontracts.

(a) Consent by the contracting officer to a subcontract does not constitute approval of the terms and conditions of the subcontract. Nevertheless, the contracting officer shall not consent to a provision in the subcontract purporting to give the subcontractor the right to obtain a direct decision of the contracting officer or the right of direct appeal to the Armed Services Board of Contract Appeals. The Government is entitled to the management services of the prime contractor in adjusting disputes between himself and his subcontractors. The contracting officer should act only in disputes arising under the prime contract, and then only with and through the prime contractor, even if a subcontractor is affected by the dispute between the Government and the prime contractor. The contracting officer shall not participate in disputes between a prime contractor and his subcontractors.

(b) However, the contracting officer should not refuse consent to a subcontract, particularly under a cost-reimbursement contract, merely because it contains a clause giving the subcontractor, if he is affected by a dispute arising under the prime contract, an indirect appeal to the Armed Services Board of Contract

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INSPECTION (1959 FEB)

The Government, through any authorized representatives, has the right at all reasonable times, to inspect, or otherwise evaluate the work performed or being performed hereunder and the premises in which it is being performed. If any inspection, or evaluation is made by the Government on the premises of the Contractor or a subcontractor, the Contractor shall provide and shall require his subcontractors to provide all reasonable facilities and assistance for the safety and convenience of the Government representatives in the performance of their duties. All inspections and evaluations shall be performed in such a manner as will not unduly delay the work.

(c) When it is desired to require contractors to maintain an inspection system in accordance with Military Specification MIL-I–45208 (see 14–303), the clause set forth in (a) above shall be included in the contract except that the following shall be added as the third sentence of paragraph (a):

The inspection system shall be in accordance with the edition of Military Specification MIL-I–45208 in effect on the date of this contract. (1967 AUG)

7–402.6 *Assignment of Claims.* In accordance with 7–103.8, insert the clause set forth therein.

7–402.7 *Examination of Records.* In accordance with 7–104.15, insert the clause set forth therein. In the case of research and development contracts with nonprofit institutions and subcontracts thereunder, and pursuant to procedures approved by the Comptroller General, original documentary evidence in support of costs of the transportation of things will not be required pursuant to said clause.

7–402.8 *Subcontracts.*

(a) In accordance with the requirements in 23–201.2, and subject to the instructions in (b) and (c) below, insert the following clause.

SUBCONTRACTS (1973 APR)

(a) The Contractor shall notify the Contracting Officer reasonably in advance of entering into any subcontract which (i) is cost-reimbursement type, time and materials, or labor-hour, or (ii) is fixed-price type and exceeds in dollar amount either $25,000 or five percent (5%) of the total estimated cost of this contract, (iii) provides for the fabrication, purchase, rental, installation, or other acquisition of special test equipment having a value in excess of $1,000 or of any items of industrial facilities; or (iv) has experimental, developmental, or research work as one of its purposes.

(b) In the case of a proposed subcontract which (i) is cost-reimbursement, time and materials, or labor-hour which would involve an estimated amount in excess of $10,000, including any fee, (ii) is proposed to exceed $100,000, or (iii) is one of a number of subcontracts under this contract with a single subcontractor for the same or related supplies or services which, in the aggregate are expected to exceed $100,000, the advance notification required by (a) above shall include:

(1) a description of the supplies or services to be called for by the subcontract;
(2) identification of the proposed subcontractor and an explanation of why and how the proposed subcontractor was selected, including the degree of competition obtained;
(3) the proposed subcontract price, together with the Contractor's cost or price analysis thereof;
(4) the subcontractor's current, complete, and accurate cost or pricing data and Certificate of Current Cost or Pricing Data when such data and certificate are required by other provisions of this contract to be obtained from the subcontractor;
(5) identification of the type of subcontract to be used;

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(6) a memorandum of negotiation which sets forth the principal elements of the subcontract price negotiations. A copy of this memorandum shall be retained in the Contractor's file for the use of Government reviewing authorities. The memorandum shall be in sufficient detail to reflect the most significant considerations controlling the establishment of initial or revised prices. The memorandum should include an explanation of why cost or pricing data was, or was not required, and, if it was not required in the case of any price negotiation in excess of $100,000, a statement of the basis for determining that the price resulted from or was based on adequate price competition, established catalog or market prices of commercial items sold in substantial quantities to the general public, or prices set by law or regulation. If cost or pricing data was submitted and a certificate of cost or pricing data was required, the memorandum shall reflect the extent to which reliance was not placed upon the factual cost or pricing data submitted and the extent to which this data was not used by the Contractor is determining the total price objective and in negotiating the final price. The memorandum shall also reflect the extent to which it was recognized in the negotiation that any cost or pricing data submitted by the subcontractor was not accurate, complete, or current; the action taken by the Contractor and the subcontractor as a result; and the effect, if any, of such defective data on the total price negotiated. Where the total price negotiated differs significantly from the Contractor's total price objective, the memorandum shall explain this difference; and

(7) when incentives are used, the memorandum of negotiation shall contain an explanation of the incentive fee/profit plan identifying each critical performance element, management decisions used to quantify each incentive element, reasons for incentives on particular performance characteristics, and a brief summary of trade-off possibilities considered as to cost, performance, and time.

(c) The Contractor shall obtain the written consent of the Contracting Officer prior to placing any subcontract for which advance notification is required under (a) above. The Contracting Officer may, in his discretion, ratify in writing any such subcontract; such action shall constitute the consent of the Contracting Officer as required by this paragraph (c).

(d) The Contractor agrees that no subcontract placed under this contract shall provide for payment on a cost-plus-a-percentage-of-cost basis.

(e) The Contracting Officer may, in his discretion, specifically approve in writing any of the provisions of a subcontract. However, such approval or the consent of the Contracting Officer obtained as required by this clause shall not be construed to constitute a determination of the allowability of any cost under this contract, unless such approval specifically provides that it constitutes a determination of the allowability of such cost.

(f) The Contractor shall give the Contracting Officer immediate notice in writing of any action or suit filed, and prompt notice of any claim made against the Contractor by any subcontractor or vendor which in the opinion of the Contractor, may result in litigation, related in any way to this contract, with respect to which the Contractor may be entitled to reimbursement from the Government.

(g) Notwithstanding (c) above, the Contractor may enter into subcontracts within (i) and (ii) of (a) above, without the consent of the Contracting Officer, if the Contracting Officer has approved in writing the Contractor's procurement system and the subcontract is within the scope of such approval. (This subparagraph (g) however, shall not be applicable to those subcontracts subject to subparagraph (j) below, if any.)

(h) The Contractor shall (i) insert in each price redetermination or incentive price revision subcontract hereunder the substance of the "Limitation on Payments" paragraph set forth in the appropriate clause prescribed by paragraph 7-108 of the Armed Services Procurement Regulation, including subparagraph (4) thereof, modified to omit mention of the Government and reflect the position of the Contractor as purchaser and of the subcontractor as vendor, and to omit that portion of subparagraph (3) thereof relating to tax credits, and (ii) include in each cost-reimbursement type subcontract hereunder a requirement that each price redetermination and incentive price revision subcontract thereunder will contain the substance of the "Limitation on Payments" provision, including subparagraph (4) thereof, modified as outlined in (i) above.

(i) To facilitate small business participation in subcontracting under this contract, the Contractor agrees to provide progress payments on the fixed-price types of subcontracts of those subcon-

tractors which are small business concerns, in conformity with the standards for customary progress payments stated in paragraphs 503 and 514 of Appendix E of the Armed Services Procurement Regulation, as in effect on the date of this contract. The Contractor further agrees that the need for such progress payments will not be considered as a handicap or adverse factor in the award of subcontracts.

(b) Insert the following additional subparagraph to the clause in (a) above, in accordance with 23–201.2(d).

(j) Notwithstanding approval of the procurement system, the Contractor shall not enter into certain subcontracts or classes of subcontracts set forth elsewhere in this contract without the prior written consent of the Contracting Officer. (1967 APR)

(c) In contracts without fee with educational institutions, change "(iii)" in paragraph (a) of the clause in (a) above to read:

(iii) Provides for (A) the construction, purchase, rental, installation, or other acquisition of nonseverable industrial facilities, or (B) the fabrication, purchase, rental, installation, or other acquisition, of any item of either (1) severable industrial facilities having a value in excess of $1,000 or the amount, if any, specified in the Schedule or Task Order, whichever is the lesser, or (2) special test equipment having a value in excess of $1,000. (1967 APR)

In (iii)(B)(1) thereof, the $1,000 limit may, in the discretion of the contracting officer, be decreased where it is determined to be in the interest of the Government, in view of the circumstances of each particular contract, as, for example, the nature of the Contractor's operations, previous experience with the contractor on comparable procurements, the contractor's accounting and procurement systems, accounting and supply systems of the procurement activity, and the capability of the procuring activity to effect close surveillance of the contractor's procurement and accounting practices. Also, in the discretion of the contracting officer, the cumulative total of acquisitions of severable industrial facilities may be limited to a stated dollar amount or an amount equal to a stated percentage of the estimated cost, beyond which amount the contractor will be required to obtain written consent of the contracting officer for any additional acquisitions of such facilities.

(d) In accordance with 23–201.4, insert the Equal Opportunity Pre-Award Clearance of Subcontracts clause set forth in 7–104.22.

C. TEACHING COMMENTARY

This case has been developed to illustrate several aspects of subcontracting. The principal aspects include what are the contractor's responsibilities in subcontracts and what are the ACO's responsibilities and options in subcontract consent procedures. Secondary aspects include a review of ASPR make or buy considerations. In addition it was endeavored to provide an entire consent package, adapted from an actual package, to familiarize the student with its make up and review.

The consent package and its circumstances in the case have been constructed to be grossly deficient and heavily slanted toward non-consent by the ACO. The errors written into the consent package range from transposition errors to major omissions in the package and nonadherence to the ASPR provisions concerning consent requirements and changes to a contract make or buy list. Also it was attempted to show that the procurement was hurried and granted very favorable conditions to the subcontractor. This will be explained further as the considerations raised in the case are discussed.

1. Contractor Responsibilities in Subcontracting

The responsibilities placed on a prime contractor are not unlike the responsibilities placed on the government. Both groups are expected to manage their programs, obtain competition in necessary procurements, control risk, keep interested parties informed, comply with the provisions of

ASPR, deal fairly with contractors, etc., etc. A primary contractor responsibility is to manage his portion of the program or contract. This is repeatedly reinforced in ASPR, paragraphs 23-203(a), 1-906, 3-902.1. It is expected that the prime contractor will manage the development in house and also manage subcontractor efforts in support of the prime contractor and the program. The government does not desire to manage the subcontractor; it is the prime contractor's responsibility to do so.

The prime contractor is also required to insure that all the necessary ASPR provisions and prime contract provisions are included in a subcontract. These include socio-economic considerations such as utilization of small business (ASPR para 1-707.3) and utilization of labor surplus areas (ASPR para 1-805.3). However, in this flowdown of requirements both from ASPR and the prime contract the prime contractor should not place excessive flowdown requirements on the subcontractor. The prime contractor should have no need for excessive proprietary information from the subcontractor. Such information could put the subcontractor in a degraded position should the prime and the sub become competitors in the future. The prime contractor should not put disproportionate risk on the subcontractor. If a prime contractor is performing under a development cost type contract, for example, a subcontractor should not be placed on a fixed price type subcontract for supportive development.

Further the prime should not seek all patent rights from the subcontractor's work if the government is not seeking such rights from the prime contractor.

The requirement that the prime contractor conduct his procurements as competitively as possible to gain the cost, performance and other benefits therein is very important, especially when the prime contractor is performing under a cost type contract. There is a real possibility that under a cost type prime contract the prime contractor will turn to a favored supplier and incur excessive costs for excessive quality or other desired benefits or concessions. An approved prime contractor procurement system as evidenced by a successful Contractor Procurement System Review (CPSR) does show that the prime contractor's past procurements were, on the average, competitive and acceptable; but it in no way certifies that all past procurements were conducted correctly or guarantee that all future procurements will be conducted correctly.

There are many other considerations and responsibilities that guide a prime contractor when dealing with subcontracting but the above are among the most important.

2. ACO'S Subcontract Consent Responsibilities & Options

The ACO's primary responsibility is to consider the 12 concerns listed in ASPR paragraph 23-202 (exhibit 2) which range from technical justification to small business concerns. He should also insure that the proposed subcontract is consistent with the objectives and provisions of the prime contract.

There are three reasonable options available to an ACO when reviewing a subcontract for consent.

a. Do Nothing

The ACO could do nothing. Since his consent is required before the subcontract can be effected the prime contractor is stopped from obtaining the item from Raysonream. However, if it can be shown that the government's non-action constitutes delay then the government can be required to reimburse the contractor for expenses incurred due to the delay. The ASBCA decision on the ALGERNON BLAIR CASE dated 11 Nov. 1971 pertains.

The McDonnell-Douglas decision of the ASBCA dated 7 Oct. 1968 provided further interpretation when it held that the government does not acquiesce to a subcontract when it returns the subcontract to the prime contractor without action. A fair explanation of this would be that for the government to grant consent it must do so by positive, affirmative action.

b. Consent to the Subcontract

The ACO could consent to the subcontract and effect the interpretation of consent as contained in ASPR paragraph 23-202, 203. He would also be agreeing to the use of the particular subcontract type employed, to the proper make up of the consent package, to the proper inclusion in the subcontract of all required clauses for subcontracts as stipulated in the prime contract, to the degree

of competition obtained, to the fairness of any patent and technical data clauses imposed on the subcontractor and other flowdown clauses.

However, as ASPR paragraph 23-202(c) points out consent does not constitute that the ACO approves of the acceptability of the contract price or the allowability of costs.

c. Do Not Consent to Subcontract

The ACO could specifically not consent to the subcontract and return it stating its shortcomings. His reasons for not consenting to the subcontract are the same concerns as stated under consenting to the subcontract. If sufficient competition was lacking, etc., it is in the best interests of the government to stop the procurement and conduct it correctly.

2. Make or Buy Considerations

The make or buy requirements of ASPR are one more attempt on the government's part to insure that procurements are thought out as completely as possible. Make or buy proposals of the potential contractors are studied before contract award to determine that the contractor has adequately thought through the task at hand and that he has the capability to manage the program. Costs and risks associated with make or buy proposals are reviewed to determine what is in the best interests of the government, to make or to buy. For more detail concerning make or buy see Appendix 1.

4. Review of the Consent Package

It should first be noted that Lieutenant Sliden's consent is required by ASPR paragraph 23-201.2 as the prime contract is a cost type contract and the proposed subcontract is for research and development.

In this particular case Lieutenant Sliden should question IAC's management of the development program. There was no expected subcontract for the antenna subassembly. It was not on the buy portion of the make or buy list of the prime contract as the entire original buy list only amounted to $100,000. With the prime contract already one-third complete it appears that IAC has encountered some difficulties and Sliden should discuss the circumstances with the procuring hardware command and IAC. Further, IAC is in non-compliance with the make or buy changes clause (ASPR 3-902.4, Appendix 1) of the prime contract which states that proposed changes to the make or buy list of a contract must be submitted to the ACO with justification. No such justification was provided Sliden.

The hurried nature of the subcontract and the need for Raysonream's expertise is evidenced by the way the subcontracting procedure and negotiations were handled. Very little time was permitted the respective subcontractors to draw up a proposal. Only Raysonream who had essentially already drawn up the proposal when it had worked on the original prime contract proposal had a chance to be responsive

on the request for proposals for the subcontract. The procurement was directed to Raysonream under the guise of competition.

The very favorable procurement for Raysonream is further evidenced by manner in which the negotiations were conducted. There was very little real negotiation present with Raysonream's data being accepted without question in most cases. Whatever advantage IAC received was in areas of little cost, the $190.00 tool, or government intervention, the DCAA estimate for manufacturing overhead. Very generous profit terms were granted without negotiation. There is no evidence that IAC is protecting the interests of the government in these negotiations. IAC because of its cost type contract with the government appears ready in all instances to pay a high price for the Raysonream procurement and pass the cost to the government.

The consent package content is grossly deficient. It lacks a price analysis by IAC, substantiation/breakdown of cost or pricing data as required by the DD 633 and justification of the "other costs" noted in the memorandum of negotiations. There are extension and carry over errors wherein the price of $3226 in the manufacturing overhead paragraph of the Memorandum of Negotiations appears as $3262 in the summary paragraph. The profit paragraph of the memorandum states $11,214 whereas in the summary paragraph it appears as $11,241. The extension of the quality control hours should be 571x3.25=1855.75 vice the 1890 shown in the

paragraph. Also the Memorandum of Negotiations uses the term "they" extensively meaning the Raysonream representatives. The individual concerned should be mentioned by name to be more meaningful.

In summation, unless it can be shown not to be in the government's best interests, consent should be denied and IAC directed to conduct a truly competitive procurement with meaningful requests for proposal and negotiations.

IV. SUBCONTRACTOR SOURCE SELECTION: A CASE STUDY

A. INTRODUCTION

1. Case Brief and Objective

The purpose of this case is to introduce the student to the source selection process used by a major defense contractor in awarding subcontracts. The case will review some of the issues which have challenged government in its practice of negotiation and source selection. From this baseline the case will illustrate the mechanics of source selection used by one defense contractor under circumstances which caused these same basic issues to be raised. The student should also gain an appreciation for the role of the Government's Administrative Contracting Officer in subcontractor source selection.

2. Negotiation and Source Selection Within DoD

The Department of Defense (DoD) procures material from private industry by two basic methods: formal advertising and negotiation. By statute, formal advertising is the preferred method. However, as the Government's need for increased use of the negotiation method evolved, so too did the Government's need to satisfy itself that negotiated procurements could withstand public scrutiny. To this end, the legislative process, decisions of courts and boards, and procurement regulations have defined and elaborated the negotiation method in terms both broad and narrow.

Congress began in the "broad" form in passage of the Armed Services Procurement Act of 1947. A section of that Act, later codified in Title 10, 2304 (g), U.S.Code, stated:

> "In all negotiated procurements...written or oral discussions shall be conducted with all responsible offerors who submit proposals within a competitive range, price, and other factors considered."

This general theme is reiterated in the Armed Services Procurement Regulations (ASPR). Section 3-805 identifies four special cases in which discussions need not be held following receipt of initial proposals. A fifth and broader class of exceptions to the general requirement for holding discussions speaks of (3-805.1 (a) (v)):

> "Procurements in which it can be clearly demonstrated from the existence of adequate competition or accurate prior cost experience with the product or service that acceptance of the most favorable initial proposal without discussion would result in a fair and reasonable price."

Circumstances which would appear to permit this latter exception to be invoked raise the question of whether the procurement should have been formally advertised in the first place. At any rate, the overall thrust of ASPR 3-805.1 is that discussions with all offerors in the competitive range is the general rule in negotiated procurement. No proposal from a responsible source offering an acceptable technical proposal is permitted to be rejected unless such proposal includes a price proposal.

The Comptroller General stated it perhaps more plainly when he said (47 Comp. Gen. 336, 342 (1967)):

> "...for competitive negotiation to be meaningful and effective, negotiations should inform offerors within a competitive range as to the areas in which their proposals are believed deficient, to the end that competitive offerors are given an opportunity to support or revise their proposals to satisfy the Government's requirements."

Further clarification of important details of the negotiation method have been the subject of General Accounting Office (GAO) interpretation. For example, the "competitive range" has been broadly defined to include any offeror whose proposal stands a reasonable chance of being selected for final award. A more difficult question deals with the extent to which a procuring agency is required to avoid or minimize advantages afforded to one of the competitors. This may arise when an offeror is the incumbent contractor in a developing project, or when an offeror gains the benefit of information through his other government contracts.

To decide this issue GAO has posed two questions: 1.) was there independent justification for the actions which resulted in the competitive advantage, and 2.) did the agency make a good faith effort to avoid affording exclusive advantage to one offeror? If either question is answered in the negative, an award to the advantaged offeror can be overturned.

Source selection can be broadly defined as the process used to select a winner in a negotiated procurement.

The process may be simple or elaborate, according to the stakes involved and the amount of uncertainty in the cost, schedule, and performance factors. In its more elaborate form, source selection involves evaluation and ranking of proposals by an evaluation board according to predetermined criteria. Actual selection is usually made by a second committee at a higher organizational echelon. Variations in the mechanics of the source selection process are nearly infinite. Even fundamental principles of source selection are fraught with controversy.

The question of discussions with all offerors in the competitive range is one aspect of source selection already discussed. Compliance with this provision, while observing the prohibition against technical transfusion among proposals, is another important issue. There is no disagreement that the criteria by which proposals will be evaluated should be made known in the Request for Proposals (RFP). But the question of informing prospective offerors of the relative importance or weights of the technical proposal, management plan, cost proposal, etc., is indeed controversial.

The GAO position has been that offerors should be informed of the broad scheme of scoring to be employed and reasonably definite information as to the degree of importance to be accorded to particular factors in relation to each other. However, in situations where the sufficiency of information concerning the relative importance of the

evaluation criteria is not questioned prior to submission of proposals, and the record does not establish that any offeror was placed at a competitive advantage or disadvantage by the inadequacy of such information, the deficiency is not sufficient to disturb the award.

At least one industry view is less certain on this issue than is GAO. Mr. W. Gregor Macfarlan, in an address at Washington Chapter of the National Contract Managers Association on March 21, 1973 put it this way:

> "How much should contractors be told about the basis for evaluation? A little bit? That's trouble right from the start. Everything? If that's the case, they may sit down and bid the evaluation criteria and lose any sense of bidding the job."

The usual result of the first phase of the source selection process is to assign a numerical grade to the various categories of each responsive proposal. These grades are then multiplied by the weight assigned to that category. For example, in a research and development procurement, the technical category would usually be assigned a relatively high weight and the cost category a relatively low one. These products are then totalled to arrive at an overall score for each offeror. Presumably, the selection committee makes the award to the high scorer.

Difficulties arise because in the period between preparation of the RFP and evaluation of proposals, the procurement agency's understanding of how its requirement can best be satisfied becomes less uncertain. Armed with

the new and better information, a source selection committee may well wish to stress different criteria and rearrange the relative weights assigned the various categories. Such a tactic can hardly be regarded as equitable by offerors who structured their proposals according to the initial evaluation plan. On top of this the procurement agency must negotiate with all offerors in the competitive range and, as previously noted, avoid technical transfusion.

For those unconvinced that the source selection process is fraught with potential controversy, two final points can be made. One is whether competition is served when the management plans of a major prime contractor and of a relative newcomer are evaluated by the same criteria. Lastly, GAO has ruled that evaluation board scoring is advisory only and is not binding. This is premised on the view that no RFP can adequately express all of the judgemental factors which must be brought to bear in making a source selection for a major project. The source selection authority must retain the discretion to award to other than the high scorer if this is considered in the best interests of the Government.

3. Contractor Procurement

The procurement practice of major defense contractors lies somewhere in between Government and commercial practice. Defense contractors are strongly encouraged and in some details directed to adopt Government principles in their own procurement operations. Contractor purchasing personnel

are every bit as familiar with ASPR and GAO decisions as their Government counterparts. Even the forms used by a major defense contractor in his purchasing department duplicate ASPR provisions almost without exception.

Negotiation is virtually the only procurement method employed in the commercial arena. There is no statutory requirement that formal advertising be used as a preferred method. This fact points out a fundamental difference between Government and commercial practice -- the source, scope, and number of procurement rules and regulations.

Unlike a Government procuring activity, a contractor is relatively free to establish his own procurement procedures, unencumbered by detailed statutory requirements and regulations from "higher authority". As a condition of doing business with the Government, a contractor relinquishes some of his freedom and agrees to incorporate certain Government imposed requirements in his own procurement practice. Despite this limitation however, the contrast between a contractor and a Government procurement agency, from the standpoint of inflexible procurement regulations, is significant.

A second difference between contractor and Government procurement concerns the number of sources of supply solicited for a given procurement transaction. Contractors are not compelled to widely publicize a forthcoming procurement nor to place heavy emphasis on award to the low bidder.

Contractors solicit fewer sources of supply, insuring only that minimum required competition is obtained rather than maximum possible. Contractors are relatively free to place more emphasis on quality, delivery, and continuing relationships with an adequate circle of suppliers.

As to source selection procedures for major procurements, the differences between Government and contractor practice are much less. Each entity utilizes rather similar procedures intended to accomplish the same purpose. Some procedural differences do exist. They arise not only from the Government practice of developing elaborate written regulations, but also from the Government's desire to demonstrate the presence of maximum possible competition.

4. Subcontracts and the Role of the ACO

The procurement operations of major defense contractors are continually supervised by a Government Contract Administration Office (CAO) at or near the contractor's plant. In performing this function, the CAO personnel are inevitably guided by the Government view of the negotiation method. This view is the baseline of their training and experience. Annually, the procurement operation of the defense contractor is reviewed by the terms of the Contractor Procurement System Review Program (CPSR). If the review shows that the contractor's procurement system meets certain standards of efficiency, ethics, contractual compliance, and competitiveness, his procurement system is approved. Such approval significantly reduces the number of contractor

procurement transactions which the CAO must review. By sheer number of transactions alone, no CAO is equipped to do more than monitor high dollar value procurements. Of necessity, great reliance is placed on the contractor's possession of an approved procurement system.

Under certain circumstances -- type of contract, nature of the work, dollar thresholds, etc. -- a defense contractor must obtain the consent of an Administrative Contracting Officer (ACO) prior to awarding a particular subcontract. Section 23-202 of ASPR lists the considerations to be observed by an ACO prior to granting consent. Among these is that the ACO consider the basis for selecting the proposed subcontractor, including the price competition obtained. However, by no means does the consent procedure make the Government a party to the arrangement between contractor and subcontractor. The Government is not in privity with the subcontractor. The prime contractor is paid to manage the subcontracts and is expected to resolve any disputes which may arise out of them. Any three-party arrangement would be highly unworkable.

Thus while the CAO is charged with insuring that competitive procurement is practiced in connection with contracts under its administration, resources and lack of privity limit the CAO's prerogatives. The relationship between the CAO and the prime contractor is important to progress of the contract work. Issues which would disturb

this relationship tend to be resolved in favor of preserving the relationship. Customer relations tends to be a two-way street.

B. CASE BACKGROUND

1. The Pluto Program

Pluto I is a two stage, solid propellant medium range missile, armed with a nuclear warhead, and deployed on Guided Missile Cruisers of the U. S. Navy. This system was developed and produced for the Naval Ordnance Systems Command by the Rocket and Space Division of Consolidated Industries. Since its introduction to the fleet in 1967, Pluto I had made a significant contribution to the strategic deterrence of the United States.

Responsibility for management of the Pluto program within the Navy was assigned to the Pluto Project Manager, NORD-053, at the Naval Ordnance Systems Command (NAVORD) in Washington, D. C. The Project Manager, a Captain, was responsible for both business and technical aspects of the Pluto Program. Some 100 civilian and military personnel were assigned to the immediate staff of the Project Manager. In addition, numerous field activities of the Defense Department provided support. Foremost among these was the Naval Plant Representative Office located in Prunedale, New York. Prunedale was the site of the Pluto prime contractor's principal facility.

The mission and functions assigned to the Naval Plant Representative Office (NAVPRO), Prunedale were delineated in

NAVORD Instruction 5450.37B. Generally stated, the NAVPRO was to act as technical representative and contracting officer of the appropriate Systems Command in all matters relating to administration of contracts to the extent authorized by appropriate authority. In performing his duties the NAVPRO was guided extensively by the Armed Service Procurement Regulations (ASPR).

NAVPRO Prunedale was responsible for supporting all Navy procurement activities doing business with the Rocket and Space Division. In this regard specific contract administration tasks were often agreed upon by letter between NAVPRO and the procurement agency. The Rocket and Space Division was, in turn, directed by contract clause to look to the NAVPRO for Government contract administration. Because of the magnitude of the Pluto Program, NAVPRO Prunedale's major effort was in support of the Pluto Project Office. The relationship between the NAVPRO and NORD-053 was extremely close, emphasizing the team effort needed for the success of the Pluto Program.

In March of 1972, the Navy announced award of a cost plus incentive fee contract to the Rocket Systems Division for development and production of ten prototype missiles to be designated Pluto II. Extensive research and development in rocket motor and guidance system design had indicated significant improvements in Pluto missile

performance could be achieved. At the time of contract award, NAVPRO Prunedale consisted of one hundred and seventy-three personnel. Of this number, seventeen were military personnel and the remainder Civil Service. The organization of NAVPRO Prunedale is shown in Exhibit One.

NAVAL PLANT REPRESENTATIVE OFFICE - PRUNEDALE

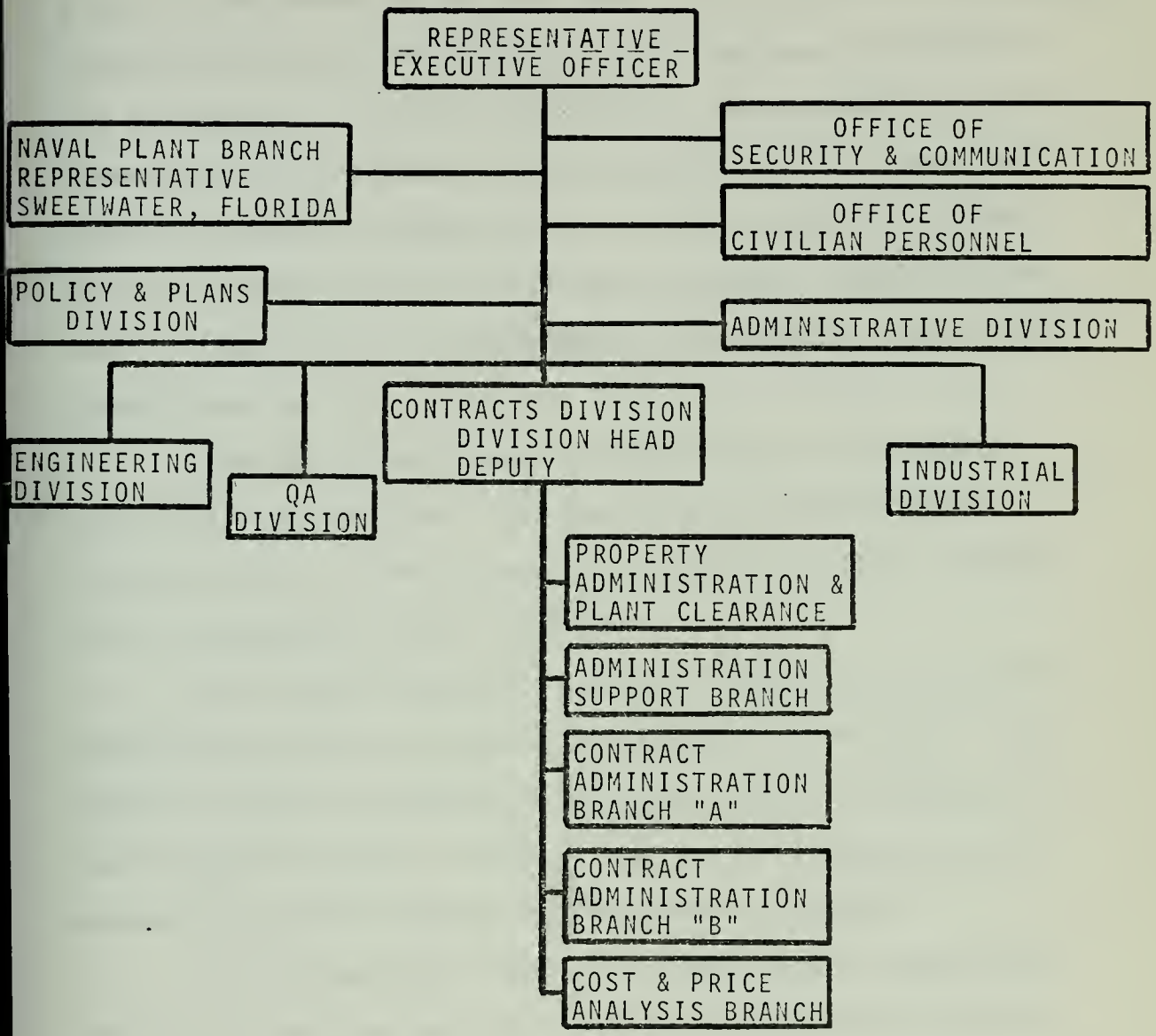


EXHIBIT ONE

2. The Prime Contractor

Consolidated Industries employs approximately 60,000 people distributed throughout seven major operating divisions and subsidiaries. In addition to the design, development and production of aircraft, missiles, and satellite systems, Consolidated is at work in such fields as rocket propulsion systems, aircraft service, ship building, bridge, highway, dam and tunnel construction, ocean systems, communications, airport operation and maintenance, electronics, and military ground vehicles.

The Rocket and Space Division builds the Pluto missile system for the U. S. Navy and the Pollux space system for NASA. The corporation's ocean systems programs are also managed by this division.

The Rocket and Space Division employs approximately 24,000 people and is located in Prunedale, New York. Its nearly 7 million square feet of floor space, in addition to the Prunedale plant, include a missile test facility and aerospace research center at Sweetwater, Florida.

As of September 1973, the Consolidated Industries' backlog of unfilled orders stood at $849,000,000 under U.S. Government contracts and $1,372,000,000 under commercial and export programs. Rocket and Space Division sales for 1972 totalled $306,000,000 under U. S. Government contracts and $36,000,000 in commercial and foreign business.

The procurement function and certain related material activities were assigned to the Material Branch,

headed by the Director of Material, who reports to the President of the Rocket and Space Division.

Management provide guidance and control over the Material Branch and was made aware of Branch policies and practices by written statements of policy and procedure maintained and distributed through a system of manuals as required by Management Directive, negotiation and assignment of operating budgets, President's staff meeting, etc.

Authority to commit the Company was delegated to the Director of Material. Level of authority to approve procurement documents was established at fixed dollar levels in accordance with position and may include the review and approval of the cognizant Vice-President.

Management was directly involved in the award of key subcontracts through the media of go ahead approvals and/or Procurement Review Committee approval action. Procurement Review committees were convened by the Director of Material, and comprised of the responsible Project Vice President, the Directors of Engineering, Financial Operations, Product Assurance and such other executives as the nature of the procurement dictated. The organizational structure of RSD is shown in Exhibit Two.

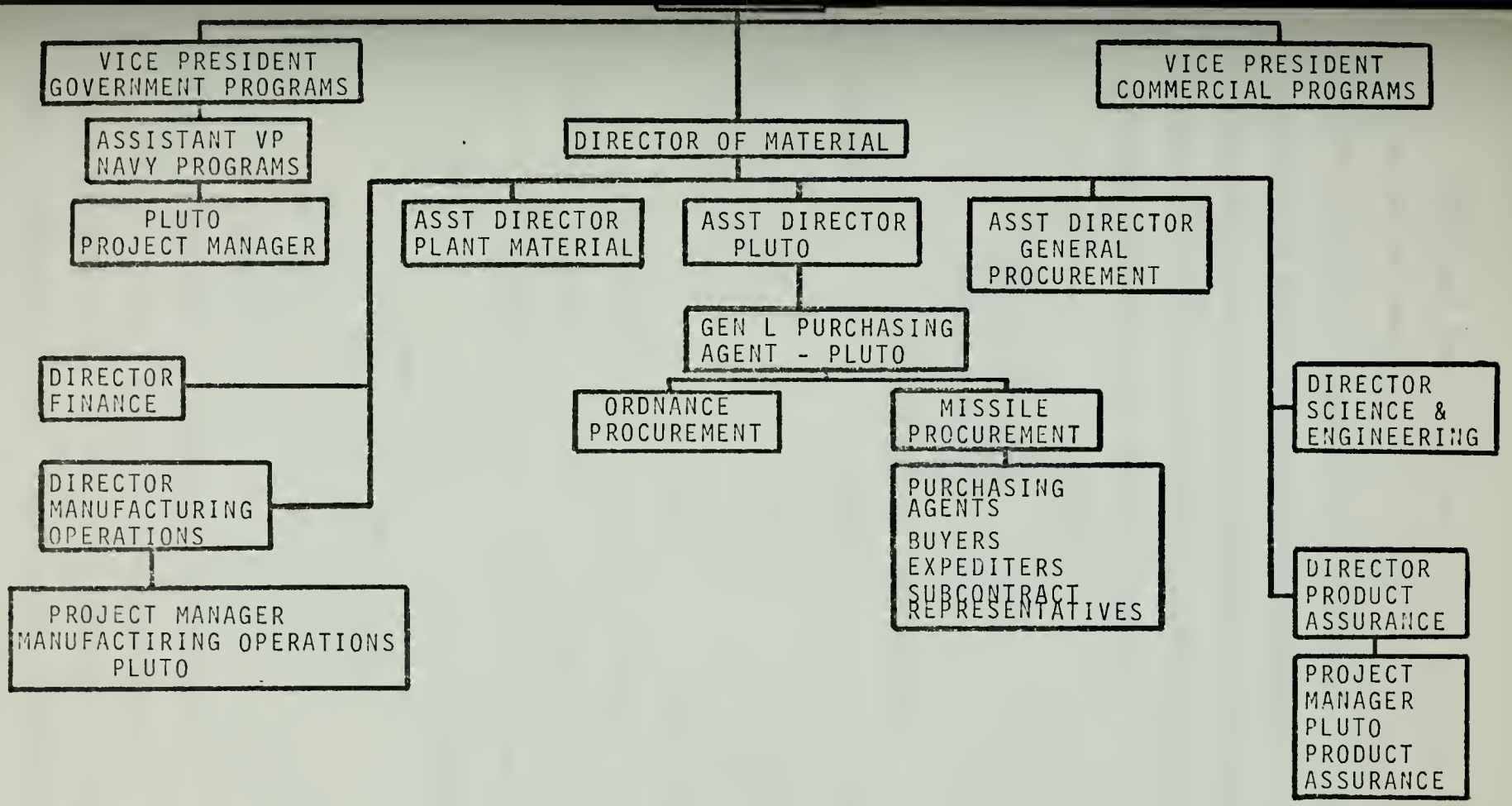

VICE PRESIDENT GOVERNMENT PROGRAMS
VICE PRESIDENT COMMERCIAL PROGRAMS
ASSISTANT VP NAVY PROGRAMS
DIRECTOR OF MATERIAL
PLUTO PROJECT MANAGER
ASST DIRECTOR PLANT MATERIAL
ASST DIRECTOR PLUTO
ASST DIRECTOR GENERAL PROCUREMENT
GEN L PURCHASING AGENT - PLUTO
DIRECTOR FINANCE
DIRECTOR SCIENCE & ENGINEERING
ORDNANCE PROCUREMENT
MISSILE PROCUREMENT
DIRECTOR MANUFACTURING OPERATIONS
PURCHASING AGENTS
BUYERS
EXPEDITERS
SUBCONTRACT REPRESENTATIVES
DIRECTOR PRODUCT ASSURANCE
PROJECT MANAGER MANUFACTIRING OPERATIONS PLUTO
PROJECT MANAGER PLUTO PRODUCT ASSURANCE

EXHIBIT TWO

RSD had been included in the Contractor Procurement System Review Program since 1961 and had maintained an approved status throughout this period. The Annual Review completed by NAVPRO in April 1973 revealed no significant discrepancies or unfavorable trends in the RSD procurement system. The scope of the RSD procurement operation during the last review period was as follows:

Summary

Purchases	$162,800,000
Number of transactions	159,070
Ratio: purchases to sales	53.3%

Distribution of Purchases

Category	Number	Value
0-$2,500	154,800	$25,500,000
$2,500-$10,000	2,865	16,100,000
$10,000-$25,000	616	9,700,000
$25,000-$100,000	592	29,400,000
over $100,000	197	82,100,000
	159,070	$162,800,000

The CPSR report noted that a sample consisting of (50) procurements on the Pluto program revealed the following statistics pertaining to subcontractor source selection:

Number	Reason	Percentage of Sample
44	Lowest bidder	88.0
3	Other than lowest bidder	6.0
3	Single responsive bidder	6.0

Of the (50) sampled procurements, a total of (325) suppliers received RFP's. Of this total, (229) were responsive (70.5%) and the remaining (96) declined to bid. Of the (3) awards to other than the lowest bidder, (2) were customer (Navy) directed and (1) was more technically qualified. All three of the awards to a single responsive bidder were for

items which had interface with other equipments on which the bidder was the supplier.

3. The Case Problem

LCDR Fred Brown had served as Head of the Contracts Division at NAVPRO Prunedale since mid-1972. Some thirty five civilian personnel were assigned in this division, ranging in grade up to GS-13. LCDR Brown was both manager of the division and one of five duly authorized Administrative Contracting Officers (ACO's). A sixth ACO in the NAVPRO was the Representative himself, Captain Smiley.

LCDR Brown was a Supply Corps officer with experience aboard ship, at a Navy Regional Purchasing Office, and most recently at a major project office in NAVSHIPS. In the Navy's view this background was well suited to his present assignment. Fred, however, still felt pretty much like a novice in trying to understand the inner workings and hidden mechanisms of a major defense contractor like RSD.

Most of the work of the Contracts Division of NAVPRO involved two RSD suborganizations -- the Pluto Project Manager Group and the Material Division. Relations between NAVPRO and RSD personnel were good. The NAVPRO was operating under the DOD policy of engagement with the contractor. RSD, in turn, accepted this approach since it was consistent with the Navy-industry team concept so successfully used throughout the Pluto Program.

LCDR Brown frequently felt himself adrift in a sea of paper. In all contract administration organizations

paperwork was the dominant medium and NAVPRO Prunedale was no exception. Fortunately, however, there were the occasional documents which interrupted the routine -- for better or for worse. The following letter was in this latter category:

15 November 1973

From: Chief of Naval Material

To: Naval Plant Representative Prunedale

Subj: Award of Rocket and Space Division Subcontract; request for information concerning

1. An unofficial Congressional inquiry has been made on behalf of Connectronix Corporation of Wilmington, New Jersey, concerning the award of the Rocket and Space Division Contract R-739F821A to Pyramid Products, Inc. of Freemont, New York. The RSD subcontract is for components in support of the Pluto II prime contract, N-0682B7193.

2. Connectronix alleges that during the post-award debriefing by RSD, they were advised that their low bid, while technically satisfactory, was judged to be inferior to that of Pyramid Products. Connectronix maintains that their proposal was in every respect responsive to the RSD Request for Proposal (RFP). Specifically, Connectronix maintains that the basis for evaluating proposals was not fully expressed in the RFP, but that this information was known to the winning offeror because of his continuing business relationship with RSD. As a result, a critical element needed to make this award on a competitive basis, equality of information, was not present.

3. You are requested to review the aforementioned RSD procurement and provide this office with sufficient information to answer this allegation. A reply by 30 November is requested.

W. T. Door
by direction

Copy to: NAVORD (NORD-053)

After studying the letter for some moments, LCDR Brown recalled an RSD subcontract with Pyramid Products but could not remember much more about it. If the subcontract had been approved by the NAVPRO (which it had), then the Contract Division must have been involved. Attached to the CNM letter was a NAVPRO form assigning LCDR Brown the task of preparing a reply.

Fred's first impulse was to call George Bloom, the RSD General Purchasing Agent responsible for Pluto purchases. George could quickly fill him in on the nature of this subcontract and send over the purchase file for Fred to review. Instead he decided to read the letter once more.

Fred knew that RSD had elaborate written procedures covering source selection for major subcontracts. These procedures were, in essence, approved by NAVPRO during the annual Contractor Procurement System Review of RSD. Although subcontracting was a major part of the Pluto Program, Fred could not recall a prior bid protest by a subcontractor.

But there was a bid protest now and one with Congressional interest. A perfunctory reply to CNM might come back to haunt him. Fred decided to outline the fundamental questions raised by the CNM letter -- competition, source selection, ACO consent, and the NAVPRO's alternatives should the Connectronix protest prove to have

some merit. He then quickly sketched his plan for getting the necessary information and answers.

C. REVIEWING THE SOURCE SELECTION

1. General

LCDR Brown was fairly familiar with the process by which procurement requirements were satisfied at RSD. Generally, requirements were generated by Engineering and forwarded to Subcontracts together with technical evaluation criteria and a list of recommended suppliers. An RSD manual known as Material Procedures described in great detail the procedures to be followed by Subcontracts personnel. These procedures were occasionally supplemented by ad hoc RSD procedures, similar in form to Navy Instructions and Notices.

For significant material requirements, a Subcontracts Manager convened a source selection evaluation team with members from all affected RSD departments. The team met to develop the information needed to draft an RFP and to establish source evaluation criteria in five broad categories. The categories were Technical Approach, Management, Product Quality and Reliability, Manufacturing, and Cost Considerations.

Subcontracts was responsible for issuing the RFP and distributing the proposals received, broken down by category, to members of the evaluation team. Proposals were then graded according to the predetermined criteria and a resultant grade assigned to each of the five major categories.

After receiving the graded proposals, the Subcontracts Manager next convened a source selection board.

Membership from Engineering, Product Assurance, Material, and Manufacturing was customary. The source selection board met to determine the relative weights to be assigned to each of the five categories by which proposals were evaluated. Having assigned the weights, determining a total score for each proposal was a simple matter. Normal procedure was to select for award the proposal having the highest score. If any member disagreed with this choice, the matter was brought to a higher organizational level for consideration.

After being notified of the results of the source selection process, Subcontracts proceeded to negotiate the contract. If required, a "consent package" was prepared and submitted to the ACO for his approval.

2. Supporting Documents

The material included in the remainder of section C. of the case was gathered by LCDR Brown to assist him in resolving the questions raised by the CNM letter. The student should review this material in preparation for the case requirements contained in section D. The following material is included:

Exhibit One - NAVPRO Prunedale memorandum of 23 November 1973 with vendor profiles and selected financial information

Exhibit Two - RSD memorandum of 22 November 1973 with the following attachments:

1.) Procurement Summary
2.) ACO Consent Form dtd 12 October 1973
3.) RSD Material Procedure #752 (Source Selection)

4.) Enclosure (1) to RSD RFP of 17 April 1973 with attachments (9), (10), and (11).
5.) RSD Interoffice memorandum of 25 August 1973 with attachment (1).
6.) RSD Interoffice memorandum of 18 August 1973 with attachments (1) through (6).

NAVAL PLANT REPRESENTATIVE OFFICE
PRUNEDALE, NEW YORK

23 Nov 1973

MEMORANDUM

From: A. Sloan, Contract Administration Branch 'A'

To: LCDR Brown

Subject: Vendor Profiles

1. The attached vendor profiles were obtained by telephone inquiry to the DCASO's concerned and from Moody's Industrials.

Very respectfully,

A. Sloan

EXHIBIT (1) - 1

Connectronix Corporation

Headquarters: Wilmington, New Jersey.

Production Facilities: Wilmington, New Jersey.

Contract Administration: DCASO, Connectronix, Wilmington

Sales to the Government (1972): DOD prime contracts $22,174,000
DOD subcontracts $7,824,000

CPSR Status: approved (since 1970).

RSD Subcontracts: no current or prior contracts with RSD.

DCASO Comment: good R & D capability; limited production facilities; placed on Navy Contractor Experience List for delivery delinquencies in 1968 and removed from the list in the same year; facility was idle during July and August due to labor dispute.

Income Statement--1972

Net sales	$34,874,143
Cost of sales	24,587,770
Sell, etc. exp.	6,846,620
Other deduct., net	126,059
Oper. income	3,313,694
Other income	53,703
Total income	3,367,397
Income Tax	1,641,084
Inc. cont. oper.	1,726,313
Inc. discont. oper.	34,257
Extraord. credit	9,041
Net Income	1,769,611
Prev. ret. earn.	1,953,337
Cm. divs. (cash)	659,197
Cm. divs. (stk)	1,957,432
Retained earnings	1,106,319
Earn. cm. share	$.95
No. of cm. shares	1,865,785

EXHIBIT (1) - 2

Combined Balance Sheet--1972

Assets	
Cash	$881,050
Rec. net	3,394,169
Inventory	5,873,666
Prepay.	162,831
Total current	$10,311,716
Net prop. etc.	7,401,484
Other assets	718,945
Intang.	265,555
Total	$18,697,700
Liabilities	
Notes Pay.	$1,532,229
Accts. pay.	2,197,966
Inc. tax	709,001
Total current	$4,439,196
Long term debt	1,747,606
Def. inc. tax	30,696
Cm. stk ($5)	9,427,310
Capital surplus	2,089,678
Retained earn.	1,106,319
Stockholders equity	12,623,307
Reacquired stock	143,105
Net stockholders equity	12,430,202
Total	$18,697,700
Net current assets	5,872,520
Net tg. cm. share	$6.54

1972 stock price range - high, $15-1/2; low, $9.

EXHIBIT (1) - 3

Pyramid Products Inc.

Headquarters: Freemont, New York.

Production Facilities: three locations including Freemont, where Pluto connectors are being produced.

Contract Administration: DCASO, Pyramid Products, Freemont.

Sales to the Government (1972): DOD prime contracts $37,423,000
DOD subcontracts $44,861,000

CPSR Status: approved (since 1966).

RSD Subcontracts: awarded subcontract for design/production Pluto I connectors in 1962; three follow-on contracts subsequently awarded for production including one still outstanding.

DCASO Comment: strong development capability and production capacity; good quality assurance record; minor delivery delinquencies.

Income Statement--1972

Net sales	$153,437,000
Other income	1,480,000
Total	154,917,000
Cost of sales	128,747,000
Sell. etc. exp.	10,315,000
Interest	561,000
Fed. inc. tax	7,233,000
Net profits	8,061,000
Prev. ret. earn.	26,734,000
Common divs.	1,844,000
Retained earn.	32,951,000
Earn. cm. share	$2.62
No. of cm. shares	3,082,000

EXHIBIT (1) - 4

Pyramid Products Inc. (cont.)

Combined Balance Sheet--1972

Assets	
Cash & equiv.	$7,740,000
Rec. net	18,789,000
Inventory	25,920,000
Prepay.	214,000
Total current	$52,663,000
Net prop. etc.	17,514,000
Other assets	1,708,000
Total	$71,885,000
Liabilities	
Accts. Pay.	$16,410,000
Notes pay	1,515,000
Accruals etc.	3,627,000
Fed. inc. tax	2,914,000
Total current	$24,466,000
Long term debt	5,296,000
Cm. stk. ($1)	3,085,000
Capital surplus	6,230,000
Retained earn.	32,951,000
Stockholder equity	42,266,000
Reacquired stk.	143,000
Net stockholder equity	42,123,000
Total	$71,885,000
Net current assets	$28,197,000
Net tg. cm. share	$13.70

1972 stock price range - high, $76; low, $73.

EXHIBIT (1) - 5

Wafburg Industries

Headquarters: Lyme, New York

Production Facility: Lyme, New York

Contract Administration: DCASO, Wafburg, Lyme

Sales to the Government (1972): DOD prime contracts $17,152,000
DOD subcontracts 11,469,000

CPSR Status: approved (since 1969)

RSD Subcontracts: Three R & D subcontracts during past three years; one production contract, Pluto I connectors, 1971.

DCASO Comment: none (DCASO policy is to respond only to written requests for evaluative information).

Income Statement--1972

Sales	44,087,740
Equity earnings	390,444
Other income	313,290
Total	$44,791,474
Cost of sales	30,090,131
Selling, etc. exp.	10,861,872
Depr. & amort.	1,793,924
Profit share.	134,500
Interest	1,045,273
Inc. tax	320,500
Inc. contin. oper.	545,274
Loss discont. oper.	56,551
Extraord. credit	588,674
Net income	1,077,397
Earn cm. share	$0.39
No. of cm. shares	2,766,911

1972 stock price range: high, $16-1/4; low, $6-1/2.

Wafburg Industries (cont.)

COMBINED BALANCE SHEET - 1972

Assets	
Cash	$1,533,064
Mkt. sec. cost	194,287
Rec. net	8,648,821
Inventories	9,728,521
Real estate for sale	429,730
Prepayments	400,449
Total current	$20,934,872
Net prop. etc.	9,579,230
Invest. & adv.	3,649,025
Patents, etc.	1,229,960
Total	$35,393,087
Liabilities	
Accts. etc. pay.	$6,577,607
Notes pay.	2,712,730
Inc. taxes	135,503
Total	$9,425,840
Notes pay.	12,043,126
Def. inc. tax	193,503
Common stk	2,768,911
Capital surplus	7,395,505
Retained earn.	3,566,202
Total	$35,393,087
Net current assets	11,509,032

EXHIBIT (1) - 7

ROCKET AND SPACE DIVISION

CONSOLIDATED INDUSTRIES

November 22, 1973

MEMORANDUM

From: Assistant Director of Material (Pluto Program)

To: LCDR Brown, Contracts Division, NAVPRO(Prunedale)

Subj: RSD Subcontract R-739F821A

Attach:
1. Procurement Summary
2. ACO Consent Form dated 12 Oct 1973
3. RSD Material Procedure # 752
4. Enclosure (1) to RSD RFP of 17 April 1973 with attachments (9), (10), and (11).
5. RSD Interoffice MEMO of 25 AUG 1973 with attach. (1).
6. RSD Interoffice MEMO of 18 AUG 1973 with attachments (1) through (6).

1. George Bloom informed me of your interest in obtaining a recap of the recent Pluto II connectors procurement. The attached material is provided for this purpose.

2. Source selection for the connectors was carefully undertaken to insure the high reliability requirements of the prime contract would be fully satisfied for these critical components. A heavy emphasis was placed on technical worth of the various proposals for this reason.

3. Should you require further information concerning this procurement, I will be happy to make the necessary arrangements.

Avery H. Hill

EXHIBIT (2)

PROCUREMENT SUMMARY

Request for Proposals Issued	17 April 1973
Number of Sources Solicited	9
Proposal due Date	4 June 1973
Number of Sources Declining to Bid	6
Responsive Offerors and Price Proposals	
A. Wafburg Industries	$675,000
B. Pyramid Products	$767,000
C. Connectronix	$510,000
Source Selection Procedure	
Pre-Award Negotiations	none
Evaluation Completed	18 August 1973
Selection Made	25 August 1973
Source Selected	Pyramid Products
ACO Consent (R&D type prime contract)	
Requested	1 October 1973
Granted	12 October 1973
Letter Contract Awarded	12 October 1973
Notification of Unsuccessful Offerors and Invitation to be Debriefed	20 October 1973
Firm-Fixed Price Contract Definitized	29 October 1973

Attachment 1.

PROCUREMENT TRANSACTION

Prior Consent

date	p.o./subcontract no.	amendment/chg notice
1 Oct 73	R-739F821A	

To: Naval Plant Representative Office
Attn: Code
Prunedale, New York

Re:

1. Advance notification is hereby given that the Contractor proposes to make an award under prime contract N-0682B7193 which is a CPIF (R&D) type of prime contract.

   a. Name of Subcontractor: Pyramid Products Inc.
   Freemont, New York

   b. Description of Supplies or Services:

   Pluto II connectors (see item 3901 of prime contract - statement of work).

   c. Type of Subcontract:

   __CPFF __CPIF __COST __COST SHARING __T&M

   __LABOR HOUR X FFP __FPI __FPR X LETTER

   __CHANGE NOTICE

   d. Proposed price of this procurement transaction is:

   $767,000.00

2. The Administrative Contracting Officer's prior consent to the placement of this procurement transaction is

   X Requested ___ Not Required

Submitted by:

Attachment 2

Consent is hereby given to the placement of subject proposed subcontract or purchase order, subject to the conditions of the clause entitled "Subcontracts" of the prime contract and conditioned upon the information furnished by the contractor in support thereof. This consent shall in no way relieve the prime contractor of any obligations or responsibilities it may otherwise have under the contract or under law, shall not create any obligation of the Government to, or privity with, the subcontractor or vendor, and shall be without prejudice to any right or claim of the Government under the prime contract. This consent does not constitute a determination as to the allowability of costs.

by _____
Administrative Contracting Officer

Date 12 Oct. 1973

RSD

MATERIAL

PROCEDURE

#752

9 Nov 72

SOURCE SELECTION PROCEDURE - PLUTO PROGRAM

PURPOSE:

To establish a systematic method and define responsibilities regarding the evaluation of supplier proposals or information, the selection of sources, and proper documentation thereof.

ATTACHMENTS:

A. Basic Procedures for Source Evaluation and Selection
B. Sample, Source Selection and Evaluation Sheet
C. Sample, Selection Summary Report
D. Guidelines for Evaluation

BACKGROUND AND GENERAL PLAN: The purpose of this procedure is to define responsibilities and a method of evaluation and source selection for items consistent with RSD Policies and Procedures, Pluto Program Objectives and ASPR requirements. This procedure is intended to be used as a general guide to source selection and is not intended to circumvent existing procedures and requirements for government audit, analyses, negotiation, approvals, handling of classified or supplier proprietary data, etc. The techniques and format described herein may be modified, as determined beneficial, to suit the wide variety of procurement/programs to be expected during the Pluto Program.

SCOPE: This procedure shall apply to all procured material and support requirements with a total estimated value of $100,000 or more per program phase or sensitive

programs as recommended by the responsible organizations with the approval of the cognizant subcontract manager.

OBJECTIVES:

A. To establish a uniform method for impartial and comprehensive evaluation of two or more potential suppliers.

B. To select the supplier(s) who offer(s) the maximum potential for achieving Program objectives and, based on the combination of Technical, Product Assurance, Management, and cost effectiveness will provide the best ultimate program to RSD and our customer.

C. Small Businesses and Minority Businesses shall be considered.

PRINCIPLE ACTION ORGANIZATIONS:

77-XX RSD Material
76-XX RSD Engineering
75-XX RSD Product Assurance

It is incumbent on evaluation personnel to utilize the support services as necessary of any other organization deemed necessary to insure the best analyses possible.

CONCURRENCE:

This Directive has been coordinated with all Action organizations.

TERMINATION:

This Directive will remain in effect until specifically terminated.

Attach: (A) Basic Procedures For Source Evaluation and Selection
(B) Source Selection Evaluation Sheets
(C) Source Evaluation & Selection Summary Report
(D) Guidelines for Evaluation

BASIC PROCEDURES FOR SOURCE EVALUATION AND SELECTION

PURPOSE

To establish a systematic method and define responsibilities regarding the evaluation of supplier proposals or information, the selection of sources, and proper documentation thereof.

GENERAL

A. The selection of a sufficient number of competent, reliable and financially sound sources prior to soliciting proposals will ultimately result in the selection of a supplier offering the best combination of capability and cost effectiveness.

B. The ultimate selection of a supplier will be enhanced if the combined skills of Technical and Administrative personnel are fully utilized to assure a balanced appraisal of all factors and if the appraisal is conducted using systematic methods.

C. Impartial evaluation can best be assured by segregation of the cost and technical portions in order that one set of criteria cannot influence the appraisal of the other criteria of a proposal.

D. The final selection of a source can best be accomplished by a board of Technical and Administrative Management or Supervisory personnel acting independently on the findings of the evaluation team.

PROCEDURE

A. After completing the data defining a new technical requirement, the Engineering Organization will generate technical evaluation criteria generally in accordance with Attachment "B" and with particular emphasis on Compliance to Design Criteria (I.D.).

B. The Engineering Organization will then forward the technical data and evaluation criteria to RSD Subcontracts together with their request for action and a list of recommended suppliers.

C. RSD Subcontracts will organize an evaluation team consisting of Engineering, Product Assurance, Material, Program Office, and other personnel as deemed necessary to assure a comprehensive evaluation.

D. The evaluation team shall meet for the purpose of reviewing the requirement and mutually establishing the total evaluation criteria (generally in accordance with Attachment "B") and will prepare instructions to the supplier that will assure replies totally responsive to the established criteria. The team shall also review prospective suppliers and reach agreement on the suppliers to be solicited.

E. RSD Subcontracts shall prepare and submit requests to the selected suppliers in accordance with established procedures together with the response instructions generated by the team.

F. Upon receipt of the supplier responses, RSD Subcontracts shall convene the evaluation team. The members shall establish action dates for completing the evaluation and reach an agreement on which factors each member will evaluate. RSD Subcontracts will then distribute the applicable portions of the responses to the team members together with rating sheets and instructions for rating. The rating sheets will contain the criteria mutually established for evaluation. In order to insure that various considerations are not overlooked and to obtain the greatest possible objectivity in the evaluation, Attachment "D" should be used as a Guideline for Evaluation. The following rating system shall be used uniformly by each evaluator.

(1) Point ratings from 0 to 10

(a) Excellent - 10 points - meets all requirements - is beyond what would normally be expected.

(b) Good - 8 points - Unconditionally meets requirement. Above average.

(c) Fair - 6 points - Not having marked merit or defect. Generally meets requirements; minimal guidance may be required. Average.

(d) Satisfactory - 4 points - Apparent weaknesses that nominal assistance can correct. Below average.

(e) Poor - 2 points - Does not present the desirable quality. Would require maximum assistance.

(f) Unacceptable - 0 points - Supplier apparently does not understand or appears incapable of meeting the requirement.

When more than one member from each Organization participates in the evaluation or when a member calls upon another person outside the team to assist in all or part of the evaluation, that organization is responsible for determining the average score of all participants for each subfactor and a composite score for each factor. One rating sheet per supplier shall be completed from each participating organization and submitted to the RSD Subcontracts representative together with back-up evaluation data and justification when deemed appropriate. Each participating organization will assure that all members of that organization consent in the final scores submitted.

The weighting of each factor will not be determined by the evaluation members.

G. RSD Subcontracts upon receipt of all evaluation sheets shall compile the data using Attachment "C" or similar - Selection Summary Report and submit the report and all data to the Subcontracts Manager.

H. The RSD Subcontracts Manager will organize and convene a Source Selection Board (SSB) to be established as follows:

The level of the Source Selection Board is dependent on (1) the total expected dollar over program life and/or (2) the expected criticality of the evaluated item.

Supervisors - up to $5,000,000 - Modifications of existing concepts
New techniques/concepts

Dept. Managers - $5,000,000 to $15,000,000 - Advanced Concepts

Div. Managers - $15,000,000 and over - Extreme advancement in state of the arts.

One member from each of the participating organizations (RSD Engineering, Material, and Product Assurance) will be selected. Other members may be selected from Finance, Legal, Manufacturing, or other organizations as deemed necessary.

The SSB will be responsible for establishing weights for each factor evaluated. These weights will be determined based on the relative importance of each individual factor. The weights will be determined after all evaluations are complete but before the evaluation scores

are divulged to the board members. Weighing ranges should generally be in accordance with the following but may vary with a majority agreement of the board members.

Factors	Weight Range
1. Technical Approach	8-12
2. Management	3 or 4
3. Product Quality & Reliability	3 or 4
4. Manufacturing	3 or 4
5. Cost Considerations	1 or 2

After the weights are assigned, the evaluation sheet from each participating organization shall be completed by multiplying the weight times the point average for each factor to arrive at the subtotal score. The subtotal scores for each factor shall be added for the final weighted score.

The final weighted scores from each organization shall then be totalled. The supplier receiving the highest total score will be selected. In the event any member of the board disagrees with the selection, the matter shall be referred to higher management for resolution.

I. The RSD Subcontract representative shall assure that all data, justifications, score sheets, and Source Selection Summaries are maintained and included with any resultant subcontract.

J. After approval of the Source Selection, arrange for debriefing meetings as requested by the unsuccessful respondees in accordance with established procedures.

SOURCE SELECTION EVALUATION SHEETS

Item_____ Orgn. _____

RFQ No. _____ Date _____

Supplier _____

Rating Range
0 - 5

I. TECHNICAL APPROACH

a) Grasp of Problem _____

b) Logic of Approach _____

c) Producibility and Economy of Design _____

d) Compliance to Design Criteria (Attach schedule of analysis) _____

e) Experience in Similar or Related Fields _____

f) Qualification of Key Technical Personnel _____

Total Points _____

Point Average _____

Weight _____ X Point Average _____ =

Sub Total Score _____

Rating Range
0 - 5

II. MANAGEMENT

a) Evidence of Good Organization & Management Practices _____

b) Qualification of Key Personnel _____

c) Cost Control Methods _____

d) Material Management _____

e) Program Management _____

f) EOC Compliance _____

Total Points _____

Point Average _____

Weight _____ X Point Average _____ =

Sub Total Score _____

Rating Range
0 - 5

III. PRODUCT QUALITY & RELIABILITY

a) System of Quality Control _____

b) Configuration Management _____

c) Reliability Analysis, Planning, & Control _____

d) Quality and Reliability Organization _____

Total Points _____

Point Average _____

Weight _____ X Point Average _____ =

Sub Total Score _____

Rating Range
0 - 5

IV. MANUFACTURING

a) Research & Development Facilities _____

b) Production Facilities _____

c) Production Planning & Control _____

d) Rate Capability _____

Total Points _____

Point Average _____

Weight _____ X Point Average _____ =

Sub Total Score _____

Rating Range
0 - 5

V. COST

a) Approved Accounting System _____

b) Cost vs. Effort _____

c) History _____

d) Willingness to Submit Cost Data _____

Total Points _____

Point Average _____

Weight _____ X Point Average _____ =

Sub Total Score _____

FINAL WEIGHTED SCORE _____

Back-Up Sheets Attached Narrative Justification Attached

Evaluators _____ Orgn. _____

_____ _____

Mgr. Approval _____ Date _____

SOURCE EVALUATION & SELECTION SUMMARY REPORT

Item Description _____ Subcontract Rep _____

_____

Source _____

FACTOR	ENG	PA	MATERIAL	OTHER	TOTAL	AVERAGE	TOTAL
I							
II							
III							
IV							
V							

Source _____

	ENG	PA	MATERIAL	OTHER	TOTAL	AVERAGE	TOTAL
I							
II							
III							
IV							
V							

Source _____

	ENG	PA	MATERIAL	OTHER	TOTAL	AVERAGE	TOTAL
I							
II							
III							
IV							
V							

Source _____

ATTACHMENT C TO MP 752

SOURCE EVALUATION & SELECTION SUMMARY REPORT (cont.)

FACTOR	ENG	PA	MATERIAL	OTHER	TOTAL	AVERAGE	TOTAL
I							
II							
III							
IV							
V							

GUIDELINES FOR EVALUATION

Prospective sources will almost always initially be evaluated on the basis of five primary factors:

1) The technical approach
2) Management
3) Product quality and reliability
4) Manufacturing
5) Cost

In the majority of cases, all five factors will be involved in the selection; however, the relative importance of the factors, and therefore their assigned weights, will vary from one request to another.

In order to obtain the greatest possible objectivity in the evaluation, these primary evaluation factors are not rated directly, but in terms of detailed supporting subfactors. For example, rather than evaluate directly on the basis of the technical approach, the evaluation will list such subfactors as grasp of the problem, logic of approach, etc. Similarly, rather than to attempt to evaluate "Management" as a single factor, the evaluator will develop a detailed evaluation plan which would include such subfactors as evidence of good organizational and management practices, qualifications of personnel, etc. If the procurement contemplates a second phase which will not be contracted for immediately, and separate information is required on the second or succeeding phases from the bidders, a separate evaluation plan will be developed for each of the phases involved, which will take into consideration the effect of the various phases on each other.

Selection of Subfactors

The selection of supporting subfactors for each of the five primary evaluation factors will vary depending upon the nature of the work required. The following tables comprise a guide to the selection of appropriate subfactors. It is the responsibility of the evaluating personnel responsible for the procurement to determine the specific subfactors required.

Only such subfactors shall be included as are necessary and desirable for adequate evaluation. While the more subfactors that are included the more objective will be the evaluation, no factors should be included which are not necessary to evaluate the specific procurement in question. Neither

should subfactors be included covering the mandatory aspects of the procurement. For example, the compliance of bidders with proprietary rights requirements or with mandatory delivery schedules, since proposals are normally either responsive or non-responsive to these requirements and there is usually no permissible graduation of compliance.

The inclusion of a large number of subfactors to which all bidders must comply if their proposal will be considered has the effect of leveling the final technical rating so that the point spread between the best and worst proposal will be deceptively small. To be of greatest possible value, the evaluation plan should be designed to result in the greatest possible point spread between good and poor proposals.

CONSIDERATION FOR EVALUATION

I. Technical Approach

a. Grasp of Problem Considerations:

1. Does the proposal recognize and differentiate between the simpler and more difficult performance requirements?

2. Does it evidence recognition of inherent maintenance and supply problems?

3. Does it demonstrate an awareness of human and environmental factors affecting the scope of work?

4. Does it evidence a recognition of relationships with other contractors and agencies, and the coordination and liaison problems involved?

5. Is the estimate of professional, technical, and administrative manpower requirements in consonance with the project requirements? Is there a reasonable balance between professional personnel and technicians?

6. Is there evidence of appropriate utilization of scientific and professional personnel; or conversely are technicians offered where highly qualified professional specialists are required?

b. Logic of Approach

1. Does the proposal convincingly show a depth of understanding of the problem?

2. Is there a brief discussion of alternate solutions which were explored and rejected and the reason for their rejections?

3. Is there a discussion of technical approaches to be explored and why the company's approach may be expected to yield the desired results?

4. Does the Proposal respond to the RFP requirements without unnecessary additional or different problems?

5. If the Proposal contemplates more effort than requested in the RFP, has the additional effort been justified on the basis that it is technically and economically desirable?

6. Does the Proposal commit the company to requirements that can be accomplished, or are there potential cost or technical problem areas?

7. Have unrealistic and unreasonable performance requirements been identified and alternatives suggested?

8. In event of deviations or alternates is the detailed logic for these recommendations given? Especially in terms of benefits, such as enhanced performance, lower costs, greater producibility, earlier delivery and simpler maintenance?

9. In the event that certain problem objectives are to some extent incompatible with other problem goals, (e.g. simplicity vs. accuracy) does the proposal unequivocally show that the optimum solution, all factors considered, has been attained?

10. Have the more difficult areas been identified and detail provided showing how performance requirements never before achieved will be met?

c. Producibility & Economy of Design

1. Have self-checking features been considered in the proposal?

2. Are high mortality components intended to be easily accessible and fully interchangeable?

3. Are requirements for special tools, fixtures and test equipment expected to be minimal?

4. Has consideration been given to simplicity, degree of risk, logistics, compatibility, environmental factors, reliability, vulnerability, maintainability, operability, test and evaluation, training or other manpower factors?

d. Compliance to Design Criteria

1. If originality has been spelled out as a requirement, does the Proposal represent a unique, imaginative approach?

2. Is there a description of novel ideas or technical approaches?

3. Is there a statement of major technical problems which must be solved with an indication as to the amount of effort budgeted to each?

4. Is the relation of proposed solution to the broader over-all system with which it will operate shown?

5. Is there a clear, concise statement of the technical requirements which the proposal fulfills?

e. Experience in Similar/Related Fields

Simply listing the programs that the firm has worked on is not sufficient. The examples provided should explain specifically how the experience gained in the previous contracts is related to the work called for by the Proposal.

1. Does the proposal give specific examples of similar projects successfully completed?

2. Is information provided as to the relation of the proposed hardware to existing or previous programs which the company has done for other customers, indicating the customer, project, and funds already spent?

3. Do the biographies relate specific experience of personnel to the specific needs of this project? Has extraneous biographical information been eliminated?

4. Is the normal commercial or Government business of the offeror closely related to the proposed work?

5. Is the offeror experienced with practices and procedures of the contracting agency to an extent which would increase the effectiveness of his performance?

6. Does the company enjoy a respected reputation in the field to which the proposal relates?

7. Does the company have Hi-Rel and Controlled Line experience?

II. Management

a. Evidence of Good Organization & Management Practices

1. Does the Supplier have an approved Equal Opportunity Program (Certificate)?

2. Does the proposal outline the type of management to be provided for the project, viz: whether a special management group will be formed or whether there will be company-wide participation?

3. Does the proposal demonstrate that top-level management will continue a high level of interest and assume responsibility for successful accomplishment of the program?

4. Does the proposal provide convincing evidence that the company is properly oriented and organizationally structured to meet the specific management needs of this project? Especially in terms of providing the requisite functions of communication (internal and external) and of integration of all project phases and pieces?

5. Is evidence given of management's understanding of how the specific project fits into the customer's over-all needs?

6. Does the proposal indicate that management first has taken a completely objective and detached look at the entire problem prior to thinking in terms of specific solutions?

7. Is it clear that management has honestly examined its own areas of competence and incompetence?

8. Are details provided on management objectives, policies, participation, and reliability concepts?

9. Does the proposal show the capabilities of the management to handle a project of the size contemplated?

10. Is evidence given that top-level management has full control of its organization?

11. Does the proposal show the position of the program manager or group in the over-all company organization and the limits of authority and responsibility?

12. If no over-all group is to be formed, does the proposal show the method of operation within the over-all company structure?

13. Does the proposal delineate the requisite numbers (neither over-or-under managed) of the right types of management people?

14. Where organizational charts are presented, is it clearly shown how the project management will operate effectively on a day-to-day basis?

15. Is information furnished as to the type, frequency, and effectiveness of management controls and methods for corrective action?

16. Do the manpower buildup charts clearly explain the methods of manpower acquisition, particularly skilled manpower requirements?

17. Is a total manpower plan and individual plans for engineering, manufacturing and quality control furnished?

18. Is information furnished showing how the present project will phase in with current and future business?

19. Does the proposal evidence the breadth and depth of management capability appropriate to the project? Is there evidence of stability of job tenure in upper management echelons?

b. Qualification of Key Personnel

1. Does the proposal include definite plans for the assignment of specific key personnel?

2. Do assigned key personnel possess the experience, educational background and record of past accomplishment appropriate to the scope of work?

3. Is the quality of personnel as set forth in the proposal generally supported by the salary scales?

4. Is the proposal dependent upon any substantial recruitment of key personnel? If so, would such recruitment result in high cost of performance, or might it adversely affect other vital contracts in the geographical areas of the offeror?

5. Is the success of the project excessively dependent upon subcontract or temporary consultants? If so, to what extent are subcontract plans firm and reasonably irrevocable?

6. Are details provided on corporate experience, facilities and personnel?

c. Cost Control Methods

1. Does supplier have an approved system(s) for cost reimbursement contracts?

2. Have excessive costs or time delays required to meet certain specific requirements been clearly pointed out?

3. Are overhead and burden rates and fees completely reasonable for this type of project?

4. Has consideration been given to the dollar value placed on the project by the customer and the funds available for it?

5. If there were significant cost over-runs, were they due to an incompetently low initial cost estimate, or to valid problems which could not have been anticipated?

6. Does the company have adequate financial resources?

d. Material Management

1. Does offeror have an approved procurement system?

2. Is a Make or Buy Program provided?

3. Is evidence given that supports the selection of subcontractors - not only from the standpoint

of their technical and manufacturing capabilities, but also their management philosophy and talents?

4. If the proposal involves systems management, does the proposal show how the subcontractor's managment will be integrated into the program?

5. Are organization charts furnished of first and second tier subcontractors which show clearly their relationship to the prime and to other subcontractors?

6. Is evidence given of the complete support of the subcontract management for an arrangement wherein the company would be the system manager?

7. If subcontractors will be used for major parts or subsystems, is a copy of their proposal furnished or evidence to show their proposal has been properly developed and evaluated?

8. Has provision been made for horizontal consultation between subcontractors?

e. Program Management

1. Does the proposal clearly demonstrate an understanding of the customer's concern with the management of this project?

2. Does the proposal provide convincing assurance that the customer's delivery dates will be met or bettered?

3. Is sufficient detail regarding master scheduling, programming, follow-up, and other like functions given to reinforce the foregoing assurance?

4. Where subcontractors and major suppliers are involved, are sufficient safeguards built into proposed scheduling system to insure subschedule compliance with master program?

5. Is it a certainty that manhour, space, facility and other cost factors have not been overestimated?

6. How does the proposed task organization integrate into the overall organization in terms of effective lines of authority and communication,

and in terms of effective integration of research, development, design, drafting, technical writing, reliability and test functions.

7. Does the proposal demonstrate detailed and realistic scheduling of the various technical phases of the project?

8. Does the proposal demonstrate effective review, evaluation and control at specific check-points?

9. Are proposed schedules in line with available personnel resources?

10. Are parallel investigations proposed on critical problems, and avoided on more routine problems?

11. Are breadboard tests planned early in the program in vital design areas?

f. EOC Compliance

1. Does the supplier have an approved Equal Opportunity Program (Certificate)?

III. Product Quality & Reliability

a. System of Quality Control

1. Does the proposal describe the company's quality control plan including organization, policies, facilities, operational system, technical capabilities, and records systems level of Government approval?

2. Is it clear that the customer's quality control requirements will be achieved by the company's quality control system, organization, concept and approach?

3. Are deviations from customer requirements satisfactorily explained?

4. Does the proposal show that customer reliability requirements can be achieved by the company's concept and approach, including a specific program for meeting or surpassing these requirements?

5. Is it clearly shown how the reliability organization and project responsibility fit into the proposed program?

6. Are reliability monitoring points (breadboard, experimental development,service test, prototype and production) clearly delineated so that customer surveillance may be effectively exercised?

7. Does the proposal show an understanding of reliability prediction techniques and spell out in detail how predicted goals will be met?

8. Is creative ingenuity reflected in the proposal by pointing out reliability approaches to particular development phases?

9. Does the proposal discuss the company's facilities and measuring equipment?

10. Are sub-tier supplier controls satisfactorily explained?

11. Does the proposal reflect the process control technique(s) used by the Quality and Reliability organization?

12. Does the proposal indicate an awareness of requirement for special test/measuring equipment?

13. Certification of personnel (special proceses, NOT, functional test, etc.).

14. Control of materials.

15. Quality review of designs and design changes.

16. Control and segregation of discrepant material - MRB.

17. Metrology System and Calibration Control.

18. System for selection and control of sub-tiers.

19. Does Manufacturing or Quality have control over functional testing?

20. Does the company have a corrective action program?

21. Does the company permit RSD and Government Source Inspection?

b. Configuration Management

1. Does the supplier have a configuration management program?

c. Reliability

Considerations:

1. Is proposal based on proven components and techniques?

2. Is redundancy provided in critical functional features?

3. Will design be based upon "worst case" analysis?

4. How are theoretical reliability analyses and reliability testing integrated into the design program?

d. Quality and Reliability Organization Structure

1. Does the organization chart provide for a Quality and Reliability management reporting structure?

2. Does the proposal reflect awareness of all required Quality functions (Tool Inspection; Testing Organization; Metrology; NDT; Special Training, etc.)?

IV. Manufacturing

a. Research and Development Facilities

1. Are the proposed laboratory pilot manufacturing and test facilities adequate for the requirements of the Technical Scope of Work?

2. Are the proposed facilities conveniently available to engineering personnel?

3. Is the proposal contingent upon Government furnished capital equipment beyond that set out in the RFP?

b. Production Facilities

1. Does the proposal present adequate evidence of the existence of physical plant, personnel, and financial resources to permit transition from development to production?

2. Do other mobilization planning commitments of the offeror preclude proposed production of the item under mobilization conditions?

3. Does the close proximity of a production facility reflect in valuable feed-back to development engineers? If so, is the production orientation of development engineers of significance to the successful completion of the proposed work?

c. Production Planning & Control/Rate Capability

1. Does the proposal describe the company's manufacturing organization responsibilities, tool policy and plan, fabrication and assembly plan?

2. Does the proposal explain the system and procedures used for schedule planning and operational controls?

3. Does the proposal provide convincing assurance of specific manufacturing competence in terms of this project? Does the biographical data relate to the specific experience of the manufacturing people to the specific work areas of this project?

4. Does the proposal clearly indicate the varying availabilities of these manufacturing people to the project? If subcontractors and/or consultants are involved, does the proposal provide assurance of their availability?

5. Does the proposal clearly indicate that the company has adequate manufacturing space and facilities, both general and special, to perform the work efficiently and on schedule?

6. Are specialized equipment and processes required for the project given sufficient prominence in the proposal?

7. Does the proposal clearly delineate the work flow paths from the time the engineering is released to the time that items are shipped?

8. Does the proposal show evidence of an effective manufacturing control system?

9. Does the proposal indicate a clearly defined procedure under which the company can move quickly to meet any emergency with a minimum of program disruption?

10. Does the proposal specifically state that all required facilities are available for the project at this time?

11. Does the proposal provide evidence that the company utilizes the most advanced methods in its manufacturing and manufacturing support areas?

V. Cost

a. Approved Accounting System

1. Does the Supplier have an approved accounting system for cost reimbursement type subcontracts?

b. Cost vs. Effort

1. Is this the lowest possible price? Considering (a) long-range potential vs. immediate return; (b) probable competitive price range?

2. Is the extent of pricing detail given consistent with the importance of these details?

3. Is there complete satisfaction that subcontractors and vendors have submitted their lowest realistic cost estimate?

c. Willingness to Submit Cost & Pricing Data to RSD

1. Does the Supplier conform to Public Law 87-653?

RSD's responsibility to cognizant Government agencies requires submission of data sufficient and complete enough to substantiate the subcontractor's proposals in relation to effort required based on the proposed Work Statement or items listed on Request for Proposal (RFP) and to permit evaluation of the elements within the overall intended price.

1. REQUIREMENTS

RSD rquests your (FFP) proposal to accomplish the effort and objectives set forth in the following documents:

1.1 Statement of Work Number R398XL2 dated 26 March 1973 (Attachment No. 1) including provisions, specifications, and requirements contained or referenced therein.

1.2 Inspection and Quality Assurance Requirements (Attachment No. 2).

1.3 Materials Handling and Packaging Standards (Attachment No. 3).

1.4 Subcontractor/Supplier Special Tooling Requirements, RSD DO54159, dated 18 May 1972 (Attachment No. 4).

1.5 Subcontractor/Supplier Special Test Equipment Requirements, RSD DO54160, dated 18 May 1972 (Attachment No. 5).

1.6 Reports Requirements Exhibit (Attachment No. 6).

1.6.1 Proposal Information Instructions for Contract Budget System (Attachment No. 7).

1.7 Design Disclosure Data and Configuration Management (Attachment No. 8).

2. PROPOSAL

The proposal shall be submitted in separate volumes as follows:

2.1 Technical The Technical Proposal shall contain, but not be limited to, the information delineated and requested in Attachment No. 9, TECHNICAL PROPOSAL REQUIREMENTS.

2.2 Management The Management Proposal shall contain, but not be limited to, the information delineated

Attachment 4

and requested in Attachment No. 10, MANAGEMENT PROPOSAL REQUIREMENTS. Information furnished pursuant to this requirement may either be submitted as a separate volume, or may be included as a part of 2.1 above.

2.3 Cost A detailed Cost Proposal responsive to the requirements of Attachment No. 1 and prepared in accordance with the instructions set forth in Attachment No. 11, COST PROPOSAL INFORMATION INSTRUCTIONS, shall be submitted on the appropriate Contract Pricing Proposal (DD 633) (Attachment No. 12). Failure to use this Contract Pricing Proposal Form may result in the rejection of the proposal. Cost proposals submitted pursuant hereto must be separated from technical proposals.

2.3.1 In the event of an award resulting from this proposal, the successful bidder shall be required to execute a Certificate of Current Cost or Pricing Data on Form 8525C (Attachment No. 13), prior to the issuance of a definitive subcontract.

2.3.2 The proposal shall include a standard Contingency Fee Statement in accordance with ASPR 1-506.1.

2.3.3 The mandatory prime contract flowdown provisions for compliance with the Cost Account Standards applies to all non-exempt procurements under Government contract. Attachment No. 14 is included for your execution and return with your proposal pursuant to the provisions of ASPR Section III, Part 12.

2.4 General Proposal shall include the following information:

2.4.1 Corporate legal name, state in which incorporated, and complete address.

2.4.2 Name, address and telephone extension of:
The individual empowered to negotiate the proposal;
The individual having technical responsibility for the project; and
The individual having contract administration responsibility for the subcontract.

2.4.3 Name and address of Government office having cognizance of:
Contract Administration Services (ACO)
Property Administration
Security
Audit.

2.4.4 Level of Security clearance in effect with respect to the plant and the names and address of the Government office which issued such clearance.

2.4.5 Date of approval of your accounting and property control system and name of Government office providing such approval.

3. TERMS & CONDITIONS/SPECIAL PROVISIONS

3.1 Terms and Conditions (FP-D2) dated 15 December 1971 (Attachment No. 19) applicable to Firm Fixed Price subcontracts shall apply to any subcontract issued as a result of the proposal required. Should you take any exception to any article in the Terms and Conditions, such exceptions shall be clearly stated in the proposal.

3.2 If applicable, the appropriate Clause Group(s) in Attachment No. 15, Additional Terms and Conditions of Purchase,(Form 966EE April 1972) will be included in any subcontract award pursuant to this proposal request.

3.3 All procurements for an estimated or actual value of $1,000,000 or more require the execution of Section I and the return of one (1) copy of Form 1588X-3, EQUAL OPPORTUNITY COMPLIANCE REVIEW & CLEARANCE, (Attachment No. 16) with your proposal as a condition of award.

3.4 Restricted or Proprietary Data Proposal shall clearly indicate areas and extent of restricted data or proprietary information contained therein. The appearance of any statement on any material or data submitted hereunder will not establish a confidential relationship between the submitter and Rocket and Space Division, Inc. unless a specific written agreement to this effect is negotiated prior to the submission of the data or the statement appearing on the data is in the form of the Rocket and Space Division Inc. standard legend as follows:

"This proprietary information, furnished in response to R-364A61 shall not be disclosed outside Rocket and Space Division Inc. or be duplicated or used in whole or in part except (1) to evaluate offeror's proposal or (2) to include the information in an RSD proposal to a customer provided the information is included with an appropriate restrictive legend. If a subcontract or a purchase order requiring use of this information is awarded to this offeror, RSD shall have the right to duplicate, use or disclose this information except to the extent provided otherwise in the subcontract on purchase order. This restriction shall not apply to information which is already in RSD or Consolidated Industries' possession at the time of submission, is or later falls within the public domain, is obtained by RSD from another source, or has been or later is disclosed by offeror to others on an unrestricted basis."

3.5 Acquisition of Data Rights In the placement of certain specified subcontracts, RSD is required by prime contract provisions to inform bidders that any limitations on the use of technical data will be considered as one element in the evaluation of proposals along with other factors such as quality of design, experience, cost, etc. If technical data is specified to be delivered pursuant to the proposed procurement and Attachment 17 is specified as being applicable, the proposal must be in compliance with that Attachment.

3.6 Rent-Free Use of Government Production and Research Property

3.6.1 No facilities, special test equipment, special tooling or standard components thereof will be furnished by RSD for the performance of the proposed procurement other than those set forth in Attachment No. 1.

3.6.2 If your proposal is based upon rent-free noninterference use of Government production and research property in your plant, the following information is required:

Accountable prime contract(s)
Date of contract(s) and expiration date

Cognizant Administrative Contracting Agency
(Name and Address)
Specific item(s) of property required
identified as follows:

Contract	Description	Gov't/Sub-Contractor ID/Tag Number	Year of Manufacture	Acquisition Cost

Additional costs for use of property if not provided on a rent free basis.

3.7 Government-Furnished Material List Government-Furnished Material Requirements, if any, in your proposal.

3.8 Security If this RFP involves classified defense information or material, such information or material and all subsequent classified data or material forwarded for use or generated in the performance of the subcontract shall be safeguarded in accordance with the Industrial Security Manual (DD 411) and specific instruction contained in the Contract Security Classification Specification (DD 254) (Attachment No. 18).

3.9 Inspection and Quality Assurance Inspection and acceptance of the products to be fabricated and delivered under the proposed procurement will be at RSD's Prunedale plant unless otherwise stated. The Quality Assurance and Inspection Requirements are annotated on Attachment No. 2 and will be made a requirement of any subcontract or purchase order commitment made as a result of this RFP, and any price associated with the implementation thereof shall be included in your quotation.

3.10 Utilization of Small Business Indicate in your proposal whether you are a Small Business concern and include a statement in regard to your policy on utilization of small business.

3.11 Labor Surplus Area Indicate in your proposal whether the plant (or Plants) in which the proposed work will be performed is in a labor surplus area and provide the category classification thereof.

3.12 FOB Point Unless otherwise stated, articles shall be delivered FOB, Rocket and Space Div., Inc., Prunedale, New York.

3.13 Royalty When the response to this Request for Proposal contains costs or charges for Royalties totaling more than $250.00, include in your proposal the information required by ASPR, Paragraph 9-110(2)(3).

3.14 Submittal In order to be properly considered, twenty (20) copies of your proposal shall be submitted to the following address on or before 4 June 1973.

Rocket and Space Division, Inc.
Post Office Box 309
Prunedale, New York

Attention: Mr. J. Green
Building: 802A

3.15 All bidder requests for information in regard to this RFP must be directed in writing to the responsible Material representative indicated in Paragraph 3.14 above. Direct contact with RSD personnel other than the responsible RSD Material representative may result in disqualification of your proposal. The question(s) and RSD's answer(s) will be made available simultaneously in writing to all bidders solicited under this RFP.

4. ACCEPTANCE/VALIDITY

4.1 While a Firm Fixed Price (FFP) proposal is requested and anticipated, RSD reserves the right to negotiate a multiple incentive Fixed Price Incentive (FPI) subcontract prior to award.

4.2 RSD reserves the right to accept other than the lowest quotation and/or to reject any or all proposals. RSD may accept any item, or group of items, contained in your proposal unless qualified by your specific limitation. This RFP is not a commitment by RSD.

4.3 RSD requests that you certify your proposal to be valid for a period of not less than 180 days.

Enclosure (1) to RFP

ATTACHMENTS	APPLICABLE
1. Work Statement Number R398XL2 Rev _____ Dated 26 March 1973	X
2. Inspection and Quality Assurance Requirements	X
3. Materials Handling and Packaging Standard	X
4. Subcontractor/Supplier Special Tooling Requirements (DO54159)	X
5. Subcontractor/Supplier Special Test Requirements (DO54160)	X
6. Reports Requirements	X
7. Contract Budget System (CBS) Information Instructions	X
8. Design Disclosure Data and Configuration Management	X
9. Technical Proposal Requirements	X
10. Management Proposal Requirements	X
11. Cost Proposal Information Instruction	X
12. Contract Pricing Proposal (DD Form 633)	X
13. Certificate of Current Cost or Pricing Data (Form 8525C)	X
14. Cost Accounting Standards Clause	X
15. Cost or Pricing Data and Audit Clauses	X
16. Equal Opportunity Compliance Review and Clearance	X
17. Request for Information on Acquisition and Price of Data	X
18. Contract Security Classification Specification (DD 254) dated _____	
19. Terms and Conditions	

TECHNICAL PROPOSAL REQUIREMENTS

The Technical Proposal shall contain, but not be limited to, the following sections:

1. INTRODUCTION

   A summary stating the reasons for the selections of the design, materials, components, etc., for the desired item.

2. SPECIFICATION REVIEW

   Discuss, in detail, all specifications considered and particularly note any specifications which cannot be met or require exceptions.

3. TECHNICAL MILESTONE CHART

   Provide a detailed Technical Milestone Chart for each Phase of the program, including starting and completion date.

4. TEST PROGRAM DEFINITION

   Describe the test program to be utilized, which will proof the design of the item.

5. DESIGN DISCLOSURE

   Provide necessary information and/or design disclosure plan, including list of documents to be utilized for the design disclosure, i.e., drawings, specifications, test procedures, test plans, data lists, etc.

6. RATE CAPABILITY

The proposal shall indicate tooling requirements (both soft and hard) and additionally the bidder shall indicate his maximum monthly rate capability to support a production program based on an 8 hour day, one shift, five days per week utilizing hard tooling.

MANAGEMENT PROPOSAL REQUIREMENTS

1.0 PERSONNEL, ORGANIZATION, MANAGEMENT

1.1 Indicate the names of key management, scientific, and engineering personnel who will be assigned to this program. Indicate how all personnel assigned to this program will be organized and how this group will be related to the present organization.

1.2 Discuss manufacturing, producibility, quality & reliability, and cost control, as related to this program.

1.3 Discuss system for complying with PRODUCT ASSURANCE REQUIREMENTS of Attachment 2 to Enclosure I.

1.4 Provide general information relative to union labor agreement, i.e.,with whom, duration, and dates, etc.

2.0 SUBCONTRACTING

2.1 Describe company policy as it pertains to subcontracting including basis for policy, provisions for management review, and control of subcontractors, furnish description of purchasing system. Provide a list of major subcontract activity as applicable to this program, indicating your supplier's input to your proposal.

2.2 Develop and provide a "make or buy" plan supported by policies and procedures for such development in general accordance with ASPR 3-902.

3.0 PROGRAM PLAN

3.1 Provide a simplified PERT Program Plan Event Chart. This chart, as a minimum will indicate all significant events in the design, documentation, fabrication and test phases. Such a chart will also include a proposed work order structure.

3.2 In support of this chart a narrative program plan shall be provided, which shall describe in detail how you propose to accomplish each event.

4.0 FACILITIES

Each response will be evaluated on the basis of responder's inclusion of data and plans which outline equipment that is in his possession, is applicable, available and in sufficient quantities to meet the requirements of the program on a non interference basis. Additional consideration factors include: outline of new equipment required in support of task definition, anticipated subcontract effort, and essential requirements in support of potential production effort.

COST PROPOSAL INFORMATION INSTRUCTIONS

(Accurate, Complete, and Current Cost or Pricing Data)

1. The Cost Proposal must include a completed, signed, and dated Contract Pricing Proposal (DD Form 633) - or other appropriate form in the DD Form 633 series - which bears the printed "Instructions to Offerors" on the reverse side. Each Cost Proposal and each supporting document must be identified to the Request for Quotation (RFQ) or Request for Proposal (RFP) and to your proposal.

2. The following signed statement must accompany the Cost Proposal. "A Certificate of Current Cost or Pricing Data, in the exact format prescribed by RSD, will be signed and submitted to RSD at the conclusion of negotiations". A copy of the certificate is included with the RFQ or RFP.

3. If you propose to use government-owned property (facilities, special tooling, special test equipment), prepare the Cost Proposal upon the assumption that rent-free use of the government-owned property will be granted. In your transmittal furnish an estimate of the amount your proposed price would be increased if rent-free use were not approved.

4. If you propose to request the inclusion of a provision relieving you from liability for loss or destruction of or damage to Government property, you should prepare your proposal on the assumption that approval will not be granted. In your transmittal, indicate the amount by which the subcontract price may be reduced if such approval were to be granted. Also, indicate whether the proposed cost for insurance to cover Government property will be a direct subcontract cost or an overhead cost. You should also indicate whether you obtain relief from liability for Government property from the Government under prime contracts and under other subcontracts.

5a. In addition to the total cost proposal, furnish cost breakdowns for each task, priceable item, or work package, as specifically called for by the Request for Proposal. (See Attached Addendum Sheet.)

6a. The REFERENCE column of DD Form 633 must specify an attachment by line item in order to identify and establish traceability to the supporting data actually submitted with the proposal or specifically identified in writing. Refer to DD Form 633, Footnotes, NOTE 3.

6b. Your proposal must provide the rationale and bases for your proposal. Such bases, for example are: (i) existing or verifiable data, (ii) judgmental factors applies to projecting from known data to the estimate, or (iii) contingencies used in the proposed price. Data submitted or identified must be verifiable. The actual data for a like or similar effort from which estimates are projected must be submitted or identified; methods used in cost projections (such as improvement curves, elimination of task, etc.) explained; and the method used to develop the estimate revealed. Contingencies must be explained, and the method of pricing detailed. When physical submission is impractical, the documentation, data, or information must be described in your proposal, adequately identified, including physical location and made available for inspection by RSD or the government upon request. Necessary deviations from these instructions which result from your accounting system should be detailed and explained as an integral part of your cost proposal. All cost or pricing data submissions must be updated with the most current, accurate, and complete data prior to final agreement on price. In all instances, be prepared to make the records upon which your proposal is based available to authorized RSD or government personnel in accordance with Instruction 5 on the reverse side of the DD Form 633.

6c. In the event that one or more subcontracts or purchase orders in excess of $100,000 will be placed with lower-tier suppliers, certified accurate, complete, and current cost or pricing data and a Contract Pricing Proposal (DD Form 633) must be obtained from the lower-tier supplier for each such procurement. If the award will be exempt from the provisions of ASPR 3-807 because the price will be based on established catalog or market prices of commercial items sold in substantial quantities to the general public, or prices set by law or regulation, a "Claim for Exemption from Submission of Certified Cost or Pricing Data", DD Form 633-7 will be required. You must perform an evaluation and analysis of the submitted DD 633s or 633-7s as may be appropriate in the particular circumstances and you will be required to make such data, including your analysis thereof, available to RSD in order to permit an evaluation of the proposed lower-tier price. If a DD 633-7 is received from a lower-tier supplier in support of a claimed statutory exemption, it will be your responsibility to

review and evaluate the claim, obtain additional data if required, verify sales information as necessary, and perform that price analysis necessary to concur with the exemption claim and the reasonableness of price. When a supplier submits a DD Form 633-7 exemption claim for an offer in excess of $100,000. and when more than one catalog item for which an exemption is claimed is included in such offer, an additional DD Form 633-7 shall be submitted for each catalog item for which the proposed price is $10,000 or more. All DD Forms 633-7 submitted to you by your suppliers must be submitted to RSD with your proposal.

7. Cost breakdowns and backup information required herein must be provided in detail as follows: (Parenthetical references are to the DD Form 633 cost elements).

a. Purchased Parts and Raw Material (1.a. and 1.c. (1))

Submit a bill of materials or itemized listing for each category, showing:

(1) Known or anticipated sources.

(2) Quantity and the basis for determining the quantity, exclusive of load factors (see (5) below).

(3) Description and Part Number, with manufacturer's number, if available.

(4) Unit price and basis for determining it. Describe competition obtained and the basis of establishing the source and reasonableness of cost. Reference supporting documents such as purchase orders, supplier quotations, or invoices. Indicate quantities for each purchase order or quotation as well as the reference number. Be prepared to furnish copies of such documents upon request.

(5) Load factors such as scrap rates, attrition, manufacturing spares, shrinkage, material burden, etc., together with their bases of computation. Show each such factor and supporting basis as a separate item.

(6) Indicate parts which are purchased in large lots or under corporate agreements and other volume discounts.

(7) In the event materials estimates are not based upon a bill of materials or itemized list, present the statistical data forming the basis of estimate. This is to be in comprehensive form and should support the estimated cost.

7b. Subcontracted Items (1.b.)

List all lower-tier subcontracts, showing:

(1) The names of the potential or actual subcontractors.

(2) Description of items of work to be subcontracted.

(3) Quantities of deliverable units.

(4) Unit price, and basis for determining it, with reference to supporting documentation such as previous purchase or quotation (identify), a statement indicating whether or not negotiated, and type of subcontract contemplated. Be prepared to provide copies of documentation upon request.

(5) Target price, ceiling price, sharing plans, incentives, etc., of lower-tier subcontracts used in estimates.

7c. Standards Commercial Items (1.c.(2))

These are items normally fabricated and stocked by you and priced at catalog or commercial market prices. Provide or identify catalog or price lists and sufficient sales information (commercial customers' names and quantities purchased, sales in dollars, or percent of total sales) to establish the commercial identity of the item. Submit an executed "Claim for Exemption from Submission of Certified Cost or Pricing Data" (DD Form 633-7) if the price quoted or catalog price exceeds $100,000. If the quotation is based on a catalog price, provide cost data covering the difference. When a DD Form 633-7 exemption claim for an offer is in excess of $100,000, and when more than one catalog item for which an exemption is claimed is included in such offer, an additional DD Form 633-7 must be submitted for each catalog item for which the proposed price is $10,000 or more.

7d. Interdivisional Transfers (3. and 1.c. (3))

Support proposed charges for in-house effort by furnishing the basis of estimate in the same detail as required by these instructions.

(1) At Cost (3)

Intercompany or interdivisional sales or transfers ordinarily should be handled on a cost, no-profit basis to the transferor. Support proposed charges by furnishing cost data in the same detail as required for in-house effort.

(2) At Other Than Cost (1.c.(3))

This is a special catgory which permits specific identification of certain transfers of parts or services between separate segments of the supplier's organization. Generally these transfers will be governed by an approved pricing agreement. The criteria governing such prices are set forth in ASPR 15-205.22 (2).

7e. Overhead and G & A (2, 5, 7, and 10)

The basis for the overhead and G & A rates proposed must be provided in one of the following ways:

(1) When forward pricing rates applicable to the period of performance have been approved by the contracting officer, furnish your letter requesting rate approval and the letter or agreement from the contracting officer granting such approval. Identify in your proposal the cost data submitted to the contracting officer in support of the forward pricing rates (unless already identified in your letter to the contracting officer requesting rate approval).

(2) When you have furnished or will furnish overhead and G & A cost data to the DCAA in support of the proposed rates, you must submit such data with your Cost Proposal or identify it on the DD Form 633 and its attachments by listing the detailed journals or cost accounts where the overhead and G & A costs are recorded. It is important to note that the use of contracting officer approved or DCAA recommended rates does not relieve you of the responsibility to disclose and identify current cost or pricing data (including significant changes in the cost base which would result from award of the procurement being negotiated) which differs materially from the data furnished in connection with the relied-upon rate agreement.

(3) When no government approvals or recommendations exist or are not available, provide by submittal

or identification the itemized cost elements, methods of computation and allocation, forecasted trends and sales, and budgetary data as necessary to provide a basis for evaluation of the reasonableness of the proposed rates.

7f. Direct Labor (4 and 6)

Provide a separate breakdown of labor by appropriate labor category, and furnish the basis for cost estimates, for each task specified by this RFQ or RFP:

(1) The number of labor hours by functional labor categories, the rate applied to each category, and the extended cost.

(2) As with other elements of the Cost Proposal, the basis of the proposed hours and rates must be submitted either actually or by specific identification in writing. The basis should reveal the thought processes by which the hours and rates proposed were determined, and must include the following for each functional labor category:

(a) A short description of the type of effort to be performed by each labor class.

(b) Historical data from like or similar programs projected to the proposed hours by application of identified complexity factors, learning curves, and other forecasted variations on the historical data. When submitting actual incurred hours from a previous or current program, start-up and nonrecurring hours must be segregated from the recurring hours (ASPR 3-807.3(e)).

(c) A copy of your request for approval of forward pricing rates and the approval letter or agreement negotiated with the government. In the absence of such agreement, historical data must be submitted or identified showing current rates and trends to support the reasonableness of the rates proposed. Identify in your proposal the cost data submitted to the contracting officer in support of your forward pricing rates (unless already identified in your letter to the contracting officer requesting rate approval).

(3) In addition, submit a manloading chart showing time and talent for each task and subtask (job

package, work package, etc.) identified in the statement of work. An example is included as Attachment 1. Summarize the chart to total proposed labor hours.

(4) Segregate any overtime premium proposed if it is a direct charge.

7g. Other Costs (8)

Lease or Rental Equipment

Furnish details concerning equipment you anticipate leasing or renting in conjunction with this program. Include item description, proposed sources and financial arrangements.

Special Tooling (ST) and Special Test Equipment (STE)

Furnish a list of your requirements, showing:

(1) Quantity.

(2) Description of the ST and STE, and description of purpose for which it is required.

(3) If the ST or STE is a standard commercial product, state the extent of modification.

(4) If ST or STE is to be supplied by a lower-tier source, furnish the following information:

(a) Name of source.

(b) Whether procured to your drawings and specifications or to a lower-tier subcontractor's special purpose design.

(c) Unit price and the basis for determining it, with supporting documentation such as purchase order, subcontract, or supplier quotation; a cost breakdown by element must be submitted if available.

(5) If ST or STE is to be manufactured by you, furnish cost and pricing information, and backup data, to the same level as required for other priceable items.

Consultants

Submit the following concerning each consultant you plan to employ on this program:

(1) Specific nature of the consulting service proposed.

(2) Name of individual or firm, with a description of their specialized field of proficiency.

(3) Hourly/daily rate or firm fee for the engagement, with supporting documentation.

(4) Proposed duration of the services required.

Travel

Furnish a list of proposed trips, with the following information:

(1) Point of departure and destination.

(2) Number of trips and duration of each.

(3) Reason for each trip proposed.

(4) Type of transportation contemplated and fare.

(5) Per diem and other allowances, with the purpose and amount of each.

Other Direct Charges

Indicate and explain any additional items treated as other direct charges in your accounting system. Provide pricing details and backup data for each item, including historical data and the pricing methods used to arrive at the amounts proposed. Identify and explain any items proposed as direct charges which are normally considered indirect or allocated items in your accounting or estimating system.

7h. Royalties (11)

Refer to DD Form 633, Footnotes, Note 14.

7i. Excise Taxes (12)

Refer to DD Form 633, Footnotes, Note 15.

7j. Profit or Fee (14)

Provide a statement of facts justifying the amount quoted for profit or fee. The facts may include quality of talent proposed, complexity and state-of-the-art features, risk, past performance, use of resources and

any other factors supporting your profit or fee position. In evaluating your proposal the weighted guidelines criteria in ASPR 3-808.2 may be applied.

8. Furnish a separate "Recurring-Nonrecurring Task Breakdown" at the selling price level, listing the recurring and nonrecurring price for each task. A sample format is included as Attachment 2.

9. Furnish a separate "Manloading Chart" for recurring and nonrecurring costs. A sample format is included as Attachment 1.

10. Submit a Gantt chart schedule depicting the significant milestones (discrete events) on a time-phased basis, indicating scheduled start and completion dates. This chart may be a reproduction of the milestone chart appearing elsewhere in your proposal.

11. Provide a forecast of funds required, by month for the first ten to twelve months and by calendar quarter thereafter, segregating expenditures and open commitments. (If accounting months are other than calendar, please stipulate; e.g., 4-4-5 etc.)

NOTE: More detailed instructions for completing your proposal and DD Form 633 and illustrations of the type of backup information required are contained in Department of Defense publication ASPM No. 1, Armed Services Procurement Regulation Manual For Contract Pricing, dated 14 February 1969, and Appendix A, thereto, available from the Government Printing Office.

RSD INTEROFFICE MEMORANDUM 25 August 1973

FROM: Murray, RSD Subcontracts Manager

TO: Green, RSD Subcontracts Representative

SUBJ: Results of Source Selection for Proposed Contract R-739F821A

ATTACH: (1) Results of Source Selection

1. The SSB has met, determined the weights for the respective evaluation categories and selected a source, Pyramid Products. Notify the selectee and debrief the unsuccessful respondees.

R. Murray

Attachment 5.

SOURCE SELECTION SUMMARY REPORT

25 August 1973

CATEGORY & WEIGHT			A (WAFBURG)		B (PYRAMID PRODUCTS)		C (CONNECTRONIX)	
			AVE	FINAL SCORE	AVE	FINAL SCORE	AVE	FINAL SCORE
I	-	10	8	80	9	90	8	80
II	-	4	8	32	9	36	8	32
III	-	4	8	32	9	36	8	32
IV	-	4	8	32	9	36	8	32
V	-	2	9.4	18.8	9.2	18.4	10	20
				194.8		216.4		196.0

SUBMITTED

R. BROWN
ENGINEERING

F. BURKE
MATERIAL

R. ROBIN
PRODUCT ASSURANCE

R. MURRAY
MATERIAL

J. AMES
MANUFACTURING

ATTACHMENT (1)

RSD INTEROFFICE MEMORANDUM 18 August 1973

FROM: Green, RSD Subcontract Representative

TO: Murray, RSD Subcontract Manager

SUBJ: Results of Subcontractor Evaluation

Ref: (A) RSD Source Selective Procedure 752

ATTACH: 1. Evaluation Summary Report
2. Technical Approach Evaluation Summary Sheet
3. Management Evaluation Summary Sheet
4. QA & Reliability Evaluation Summary Sheet
5. Manufacturing Evaluation Summary Sheet
6. Cost Evaluation Summary Sheet

1. In accordance with reference (A) attachments 1 through 6 are

Green

Attachment 6.

EVALUATION SUMMARY REPORT
18 August 1973

ITEM connectors ORGANIZATION RSD SUBCONTRACTS

RFQ/ R-739F821A DATE
Contract

RATING RANGE 0-10

	A (WAFBURG)	B (PYRAMID PRODUCTS)	C (CONNECT RONIX)
I TECHNICAL APPROACH			
POINT AVERAGE	8	9	8
II MANAGEMENT			
POINT AVERAGE	8	9	8
III PRODUCT QA & RELIABILITY			
POINT AVERAGE	8	9	8
IV MANUFACTURING			
POINT AVERAGE	8	9	8
V COST			
A. TOTAL PROPOSED PRICE	7.5	6.7	10
B. COMPLETENESS OF PACKAGE	10	10	10
C. TYPE OF ACCOUNTING SYSTEM	10	10	10
D. AUDIT INFORMATION	10	10	10
POINT AVERAGE	9.4	9.2	10

EVALUATORS

B. SMITH, ENGINEERING

R. GUNN, PRODUCT ASSURANCE

D. DIRK, MATERIAL

Q. BRISBANE, PROGRAM OFFICE

ATTACHMENT (1)

TECHNICAL APPROACH SCORING SHEET

	SUPPLIERS		
	A	B	C
1. Grasp of Problem Considerations:			
a. Does the proposal recognize and differentiate between the simpler and more difficult performance requirements?	8	9	9
b. Does it evidence recognition of inherent maintenance and supply problems?	7	8	8
c. Does it demonstrate an awareness of human and environmental factors affecting the scope of the work?	8	9	8
d. Does it evidence a recognition of relationships with other contractors and agencies, and the coordination and liason problems involved?	8	9	9
e. Is the estimate of professional, technical, and administrative manpower requirements in consonance with the project requirements? Is there a reasonable balance between professional personnel and technicians?	9	10	7
f. Is there evidence of appropriate utilization of scientific and professional personnel; or conversely are the technicians offered where highly qualified professional specialists are required?	8	9	7
2. Logic of Approach			
a. Does the proposal convincingly show a depth of understanding of the problem?	8	9	8
b. Is there a brief discussion of alternate solutions which were explored and rejected and the reason for their rejections?	7	8	8

	SUPPLIERS		
	A	B	C
c. Is there a discussion of technical approaches to be explored and why the company's approach may be expected to yield the desired results?	7	8	7
d. Does the proposal respond to the RFP requirements without unnecessary additional or different problems?	9	9	9
e. If the proposal contemplates more effort than requested in the RFP, has the additional effort been adjusted on the basis that it is technically and economically desirable?	9	9	9
f. Does the proposal commit the company to requirements that can be accomplished, or are there potential cost or technical problem areas?	8	9	7
g. Have unrealistic and unreasonable performance requirements been identified and alternatives suggested?	8	9	8
h. In event of deviations or alternatives, is the detailed logic for these recommendations given? Especially in terms of benefits, such as enhanced performance, lower costs, greater producibility, earlier delivery and simpler maintenance?	7	8	8
i. In the event that certain problem objectives are to some extent incompatible with other problem goals, (e.g. simplicity vs accuracy) does the proposal unequivocally show that the optimum solution, all factors considered, has been attained?	8	9	8
j. Have the more difficult areas been identified and detail provided showing how performance requirements never before achieved will be met?	9	10	8

	SUPPLIERS		
	A	B	C
3. Producibility and Economy of Design			
a. Have self-checking features been considered in the proposal?	8	9	8
b. Are high mortality components intended to be easily accessible and fully interchangeable?	9	9	9
c. Are requirements for special tools, fixtures, and test equipment expected to be minimal?	8	7	9
d. Has consideration been given to simplicity, degree of risk, logistics, compatibility, environmental factors, reliability vulnerability, maintainability, operability, test and evaluation, training or other manpower factors?	9	10	7
4. Compliance to Design Criteria			
a. If originality has been spelled out as a requirement, does the proposal represent a unique, imaginative approach?	8	9	8
b. Is there a description of novel ideas or technical approaches?	8	9	8
c. Is there a statement of major technical problems which must be solved with an indication as to the amount of effort budgeted to each?	8	9	8
d. Is the relation or proposed solution to the broader over-all system with which it will operate shown?	8	9	8
e. Is there a clear, concise statement of the technical requirements which the proposal fulfills?	8	9	7

5. Experience in Similar/Related Fields

Simply listing the programs that the firm has worked on is not sufficient. The examples provided should explain specifically how the experience gained in the previous contracts is related to the work called for by the proposal.

a. Does the proposal give specific examples of similar projects successfully completed?

b. Is information provided as to the relation of the proposed hardware to existing or previous programs which the company has done for other customers, indicating the customer, project, and funds already spent?

c. Do the biographies relate specific experience of personnel to the specific needs of this project? Has extraneous biographical information been eliminated?

d. Is the normal commercial or Government business of the offeror closely related to the proposed work?

e. Is the offeror experienced with practices and procedures of the contracting agency to an extent which would increase the effectiveness of his performance?

f. Does the company enjoy a respected reputation in the field to which the proposal relates?

g. Does the company have HI-REL and Controlled line experience?

TECHNICAL APPROACH OVERALL AVERAGE

	SUPPLIERS		
	A	B	C
a.	9	9	8
b.	8	9	7
c.	9	9	9
d.	7	9	9
e.	8	9	7
f.	8	10	8
g.	8	9	8
	8	9	8

MANAGEMENT EVALUATION SCORE SHEET

GRADE EACH ITEM WITH A SCORE FROM 0 TO 10

		SUPPLIERS		
		A	B	C
A.	MANAGEMENT			
1.	Does the Supplier have an approved Equal Opportunity Program (Certificate)?	10	10	10
2.	Does the proposal outline the type of management to be provided for the project, viz: whether a special management group will be formed or whether there will be company-wide participation?	10	10	10
3.	Does the proposal demonstrate that top-level management will continue a high level of interest and assume responsibility for successful accomplishment of the program?	8	9	8
4.	Does the proposal provide convincing evidence that the company is properly oriented and organizationally structured to meet the specific management needs of this project? Especially in terms of providing the requisite functions of communication (internal and external) and of integration of all project phases and pieces?	8	9	8
5.	Is evidence given of management's understanding of how the specific project fits into the customer's over-all needs:	8	9	8
6.	Is it clear that management has honestly examined its own areas of competence and incompetence?	7	8	7
7.	Are details provided on management objectives, policies, participation, and reliability concepts?	8	9	9

	SUPPLIERS		
	A	B	C
8. Does the proposal show the capabilities of the management to handle a project of the size contemplated?	8	9	8
9. Does the proposal show the position of the program manager or group in the over-all company organization and the limits of authority and responsibility?	8	9	9
10. If no over-all group is to be formed, does the proposal show the method of operation within the over-all company structure?	8	9	9
11. Does the proposal delineate the requisite numbers (neither over-or-under managed) of the right types of management people?	6	8	5
12. Where organizational charts are presented, is it clearly shown how the project management will operate effectively on a day-to-day basis?	8	9	8
13. Do the manpower buildup charts clearly explain the methods of manpower acquisition, particularly skilled manpower requirements?	7	9	8
14. Is a total manpower plan and individual plans for engineering, manufacturing and quality control furnished?	9	9	8
15. Is information furnished showing how the present project will phase in with current and future business?	8	9	8
16. Does the proposal evidence the breadth and depth of management capability appropriate to the project? Is there evidence of stability of job tenure in upper management echelons?	7	9	5
AVERAGE SCORE	8	9	8

	SUPPLIERS		
	A	B	C
B. KEY PERSONNEL			
1. Does the proposal include definite plans for the assignment of specific key personnel?	8	9	8
2. Do assigned key personnel possess the experience, educational background and record of past accomplishment appropriate to the scope of work?	8	9	8
3. Is the proposal dependent upon any substantial recruitment of key personnel? If so, would such recruitment result in high cost of performance, or might it adversely affect other vital contracts in the geographical areas of the offeror?	8	9	8
4. Is the success of the project excessively dependent upon subcontract or temporary consultants? If so, to what extent are subcontract plans firm and reasonably irrevocable?	7	8	6
5. Are details provided on corporate experience, facilities and personnel?	9	10	10
AVERAGE SCORE	8	9	8
C. MATERIAL MANAGEMENT			
1. Does offeror have an approved procurement system?	10	10	10
2. Is a Make or Buy Program provided?	10	10	10
3. Is evidence given that supports the selection of subcontractors - not only from the standpoint of their technical and manufacturing capabilities, but also their management philosophy and talent?	5	7	5
AVERAGE SCORE	8	9	8

D. PROGRAM MANAGEMENT

1. Does the proposal clearly demonstrate an understanding of the customer's concern with the management of this project?

2. Does the proposal provide convincing assurance that the customer's delivery dates will be met or bettered?

3. Is sufficient detail regarding master scheduling, programming follow-up, and other like functions given to reinforce the foregoing assurance?

4. Are proposed schedules in line with available personnel resources?

AVERAGE SCORE

AVERAGE SCORE TOTAL

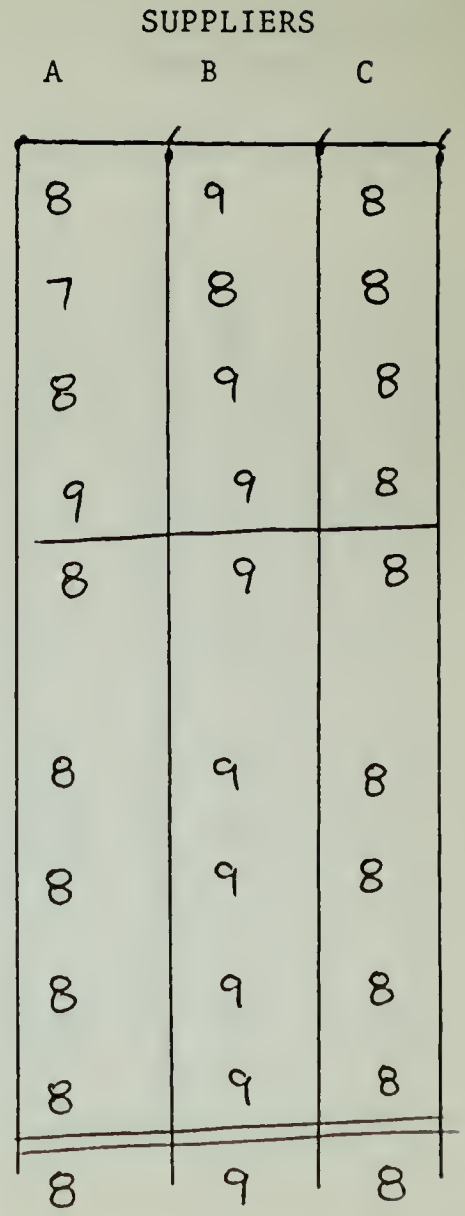
A

B

C

D

OVERALL MANAGEMENT AVERAGE



PRODUCT QUALITY SCORING SHEET

	SUPPLIERS A	B	C
1. Management Controls:			
a. Does the proposal clearly describe the company's quality control plan, including organization policies, facilities, and technical capabilities?	9	9	9
b. Does the supplier's organization structure show the quality function reporting on a direct line to top management? (Not influenced by mfg., engineering, sales or procurement?)	9	8	9
2. Quality Planning:			
a. Does the proposal clearly state how the customer's quality control system requirements will be met?	7	7	8
b. Does the proposal clearly define the extent of Quality organization participation in the design and design change review?	7	10	8
3. Inspection/Test Operations:			
Does the proposal clearly state the company's system of control for: (1) inspection status identification and stamp control; (2) Test and Inspection Planning and Operations; and (3) Product Quality Records?	8	9	7
4. Corrective Action:			
Does the proposal clearly describe the company's corrective action system, including failure/deficiency feedback?	8	9	8

5. Supplier Procurement Control:

   Does the proposal describe the company's system of controls regarding (1) selection of sub-tier suppliers; (2) quality review of procurement documentation; (3) approved supplier listings; (4) quality requirements on procurement documents; and (5) incoming material including special processes?

6. Calibration Control:

   Are the company's metrology and calibration controls for production tools, inspection and test equipment fully explained?

7. Control of Discrepant Material:

   Does the proposal clearly state the company's system for identification, segregation and control of discrepant material, i.e. MRB?

8. Training and Certification:

   Does the proposal describe the company's program for trainer and certification in areas such as special process, NOT, function test?

	SUPPLIERS		
	A	B	C
5.	7	9	7
6.	9	10	8
7.	8	10	8
8.	8	9	8

PRODUCT RELIABILITY SCORING SHEET

		SUPPLIERS		
		A	B	C
1.	Management Controls Does the proposal clearly describe the company's reliability management plan including organization policies and technical capabilities?	8	9	9
2.	Reliability Planning Does the proposal include plans necessary for the program implementation?	8	9	9
3.	Data Collection Does the proposal clearly define a reliability information collection and dissemination system?	7	8	8
4.	Mathematic Models Does the proposal define the use of a reliability model and prediction analysis methods?	9	9	10
5.	Component Selection Does the proposal define the use of proven components and techniques?	8	9	6
6.	Design Simplicity Does the proposal define a simple design concept?	10	10	8
7.	Redundancy Does the proposal define the use of redundant elements where appropriate?	6	9	6
8.	Stress Levels Does the proposal define the use of part derating and safe stress levels?	8	9	8

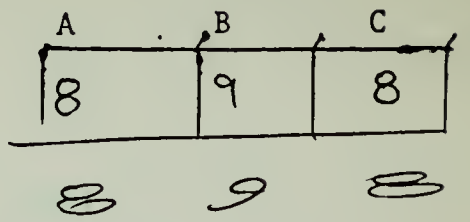
9. Safety
Does the proposal define safety considerations?

	SUPPLIERS		
	A	B	C
	8	9	8
TOTAL			
Product Quality AVERAGE	8	9	8
Reliability AVERAGE	8	9	8
RSD Product Quality and Reliability OVERALL AVERAGE	8	9	8

MANUFACTURING

	SUPPLIERS		
	A	B	C
1. Does the proposal present adequate evidence of the existence of physical plant, personnel, and financial resources to permit transition from development to production?	8	9	7
2. Does the proposal describe the company's manufacturing organization responsibilities, tool policy and plan, fabrication and assembly plan?	8	9	9
3. Does the proposal explain the system and procedures used for schedule planning and operational controls?	8	9	9
4. Does the proposal provide convincing assurance of specific manufacturing competence in terms of this project? Does the biographical data relate to the specific experience of the manufacturing people to the specific work areas of this project?	7	8	6
5. Does the proposal clearly indicate that the company has adequate manufacturing space and facilities, both general and special, to perform the work efficiently and on schedule?	9	9	5
6. Are specialized equipment and processes required for the project given sufficient prominence in the proposal?	8	9	8
7. Does the proposal show evidence of an effective manufacturing control system?	8	10	10
8. Does the proposal specifically state that all required facilities are available for the project at this time?	8	8	8

SUPPLIERS



9. Does the proposal provide evidence that the company utilizes the most advanced methods in its manufacturing and manufacturing support areas?

AVERAGE SCORE

COST SCORING SHEET

		A	B	C	D	E	F
I.	TOTAL PROPOSED PRICE	7.5	6.7	10			
II.	COMPLETENESS OF PACKAGE:						
	A. COMPLETE, CURRENT, ACCURATE DATA	10	10	10			
	B. DD FORM 633 PROPERLY PREPARED	10	10	10			
	C. MATERIAL SUPPORTED	10	10	10			
	D. INDIRECT RATES SUPPORTED	10	10	10			
	E. RATIONALE FOR LABOR HOURS	10	10	10			
	F. SUPPORT FOR LABOR RATES	10	10	10			
	G. OTHER DIRECT COSTS SUPPORTED	10	10	10			
	AVERAGE	10	10	10			
III.	TYPE OF ACCOUNTING SYSTEM:						
	A. IDENTIFIES COST TO PRODUCT	10	10	10			
	B. ACCESSIBILITY TO COST DATA	10	10	10			
	C. ACCOUNTING STANDARDS DISCLOSURE STATEMENT	10	10	10			
	AVERAGE	10	10	10			
IV.	AUDIT INFORMATION:						
	A. AUTHORIZED RELEASE OF DATA TO DCAA/RSD	10	10	10			
	TOTAL	37.5	36.7	40.0			
	COST AVERAGE	9.4	9.2	10.0			

D. CASE REQUIREMENTS

1. The Source Selection Process

a. Consider the RSD Material Procedure #752. Identify aspects of this procedure which tend to be counter to the best interests of the Government.

b. Review the RSD Request for Proposals.

(1) Does the RFP adequately convey to the offerors an understanding of the criteria by which proposals are to be evaluated? Comment.

(2) Is an offeror who has not been debriefed in a prior RSD source selection significantly handicapped? If so, does this matter in the long run? Comment.

(3) How could the RFP be improved?

c. With regard to the details of the source selection process:

(1) Did RSD comply with its own written procedures in all essential areas? Comment.

(2) Evaluation criteria must be carefully chosen to avoid an "averaging out" effect that inhibits selection based on the really significant discriminators among the offerors. Were the criteria in the RSD source selection so chosen? Comment.

(3) By which criteria did Connectronix lose the award?

(4) Would the outcome have been different if Pyramid had proposed $900,000? Comment.

2. NAVPRO/ACO Role

a. RSD made nearly two hundred procurements in the past year of about the same dollar magnitude as the connectors. In view of this:

(1) In what level of detail should the NAVPRO/ACO review such a procurement before granting consent?

(2) What safeguards exist to insure that the contractor conducts a "proper" procurement operation, in addition to the consent procedure?

3. Role Reversal

a. Consider the case problem as having arisen one level higher in the contracting hierarchy. Assume NAVORD is the procuring agency and that the same source selection procedure was used to award a prime contract.

(1) Is such a procedure consistent with Government procurement practice? Defend the procedure from the view of a PCO. Attack it from the view of Connectronix.

(2) If the Government had negotiated with each offeror, would you expect the outcome to have been different? How?

(3) If the offerors knew that negotiations would precede award, what proposal strategies would they be forced to employ?

4. The CNM Letter

a. What response should LCDR Brown make to the CNM letter?

E. TEACHING COMMENTARY

1. Introduction

As stated in section one, the purpose of the case is to introduce the student to the source selection process used by a major defense contractor. RSD Material Procedure #752, the RFP, and the evaluation sheets contained in section three are Navy contractor documents. They have been altered only to disguise authorship.

In writing the case, a concerted effort was made to limit the number of side issues brought into focus. Subcontractor source selection involves not only the mechanics of the process, but also all the issues of negotiated procurement and the role of a third party, the contract administration organization.

By no means does the case describe or even mention the process used by the Contracting Officer to insure that the subcontract was made at a fair and reasonable price. Such information would have increased the scope of the case beyond the stated objectives. It may be assumed that the ACO did correctly make such a determination during the consent process. However, an astute student will question this aspect of the case.

The case requirements were intended to limit the issues to a manageable range. Classroom discussion of the case may lead far afield of the specified case requirements. For example, had the NAVPRO decided that the bid protest was substantiated, determining the liability of the Government, in view of ACO consent, would make a case unto itself.

The RFP's failure to describe just how proposals would be evaluated is certainly a serious and valid criticism of the contractor. The illogic of omitting such information was well stated in a past issue of Defense Management Journal:

> "Firm criteria for proposal evaluation should be given (in the RFP), as well as the actual or approximate weighting factor for each of the criteria or groups of criteria. Since the purpose of the RFP is to elicit the best possible responses from all bidders reflecting the system program office desires, what can be gained by making the evaluation process mysterious? The bidders ought to know the rules of the game. If they don't, the evaluation board runs into evaluation problems because the various proposals will reflect different degrees of emphasis in various areas. The bidder who comes nearest to guessing the right answers gets a higher score. Yet, he may not be the best qualified contractor for the program."[1]

2. Discussion Questions

a. Consider the RSD Material Procedure #752. Identify aspects of this procedure which tend to be counter to the best interests of the Government.

RSD Material Procedure #752 was approved during the last CPSR and is entirely sound. The procedure is broad enough to cover every conceivable procurement necessary in the Pluto Program. The same basic principles are applied to both major and minor procurements. Yet flexibility in applying specific details and levels of organizational involvement, according to the nature of each procurement -- dollar threshhold, technical risk, etc. -- is provided for.

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[1]. STEELE, Morris, "Communications Effectiveness Needed in RFP-Proposal-Contract Award Cycle", Defense Management Journal, v. 9, p. 22, January 1973.

Furthermore, the procedure permits evaluation criteria for a specific procurement to be chosen according to the nature of that procurement.

No RSD department can entirely dominate the source selection process. The high weight assigned to the technical worth of proposals is consistent with the requirements imposed on RSD by its customer, the Navy. The relatively low weight suggested for cost considerations bears watching. Not all RSD Pluto procurements are of a nature which would justify such a minor role for cost factors. The RSD procedure permits the source selection board to vary from the suggested weight ranges of the various categories. There should be an understanding between RSD and the NAVPRO that cost will be given greater emphasis when circumstances permit.

b. Review the RSD Request for Proposals.

(1) Does the RFP adequately convey to the offerors an understanding of the criteria by which proposals are to be evaluated? Comment.

Clearly, the RFP does no such thing. Broad requirements as to format and content of the technical, management, and cost proposals are included in the RFP. But criteria by which the three proposals will be evaluated are not stated. The RFP offers no indication of the relative importance of technical, management, and cost aspects of an offeror's proposal. Offerors are advised that RSD reserves the right to accept other than the lowest quotation. And that is the extent of the guidance provided.

(2) Is an offeror who has not been debriefed in a prior RSD source selection significantly handicapped? If so, does this matter in the long run? Comment.

Such an offeror is operating under a severe handicap. He needs more than a statement of work to prepare a proposal likely to satisfy an RFP and result in an award. An astute supplier, without prior business experience with RSD, would be expected to find some means of gaining a general idea of how RSD evaluates proposals. Nevertheless, such a supplier is hardly on equal footing with other offerors who have a current or recent business relationship with RSD.

(3) How could the RFP be improved?

By now the answer is obvious. Because the RFP is deficient in informing offerors of evaluation criteria and the relative weighting of categories, RSD is less likely to be in a position to select the supplier best suited to this procurement. If offerors have to guess in preparing proposals, then in a subtle way, a proposal selection process has been substituted for a source selection process.

c. With regard to the details of the source selection process:

(1) Did RSD comply with its own written procedures in all essential areas? Comment.

RSD did comply with its own Procedure #752. The answer to this question is important since an informal bid protest is involved. Had RSD deviated from this procedure, the procurement file would be expected to contain documentary justification for such action.

(2) Evaluation criteria must be carefully chosen to avoid an "averaging out" effect that inhibits selection based on the really significant discriminators among the offerors. Were the criteria in the RSD source selection so chosen? Comment.

In attempting to answer this question one begins to develop an appreciation for the challenge which devising evaluation criteria can present. Several of the criteria are redundant. These tend to reinforce the better proposal. By several other criteria, each proposal received a maximum of ten points. Such criteria have a place in screening proposals for responsiveness and responsibility of the offeror. They are more in the nature of a "go, no-go" test than a measure of the degree to which a particular quality is present in a proposal. When used in the evaluation process, the "averaging out" effect creeps in. This was most apparent in the cost category where the significance of total price was negated by the remaining "boilerplate" criteria.

The quality of the source selection process can be judged to some extent by examining the range of total scores from high to low. If the range is broad, the process probably did a good job of differentiating between proposals. In the case at hand, the range is narrow -- a high of 216 and a low of 194 -- so we must look further.

The winning proposal received a grade as high or higher than either of the other proposals for all but

three criteria. This increases the confidence that the process produced the best choice. Still, a wider range in total scores would have been more reassuring.

(3) By which criteria did Connectronix lose the award?

The Connectronix proposal received high marks in every category and for nearly every criteria. But closer examination shows that Connectronix was graded at least two points lower than the winning offeror for about seventeen criteria. Of this number, thirteen of the criteria have cost growth implications. Relatively low grades here tend to explain why Connectronix was able to make its proposal so low.

(4) Would the outcome have been different if Pyramid had proposed $900,000?

With the arithmetic procedure by which grades were assigned for "total proposed price", a proposal of $900,000 would have made no difference in the outcome. However, there exists some ceiling price beyond which a proposal would be declared non-responsive before evaluation or else rejected later by the source selection board. A ceiling price would not have to be specified beforehand. But if needed it would be based on RSD's cost estimate of the work and the company's confidence in this figure based on all cost proposals received.

The question does illustrate the apparent insignificance of total proposed price (within limits) in the RSD source selection plan. However, as noted earlier, criteria in other evaluation categories also have cost implications.

d. RSD made nearly two hundred procurements in the past year of about the same dollar magnitude as the connectors. In view of this:

(1) In what level of detail should the NAVPRO/ACO review such a procurement before granting consent?

The NAVPRO/ACO is limited by time and resources in reviewing an RSD procurement for consent. Naturally, the detail in which a procurement is reviewed varies according to the nature of the contract, the dollar value, and the criticality or technical complexity of the end item. As a minimum, the NAVPRO/ACO must insure that certain administrative and contractual requirements are met. The proposed price may be confirmed by separate analysis. A NAVPRO will categorize prime contractor procurements and develop internal review procedures for each category. Detail of review will vary according to category.

(2) What safeguards exist to insure that the contractor conducts a "proper" procurement operation, in addition to the consent procedure?

Over a period of time, the NAVPRO will develop a working relationship with the contractor and extensive familiarity with his procurement procedures. NAVPRO

procedures are guided in part by his judgement of the efficiency and integrity of the contractor's procurement methods. The contractor's procurement system must meet the requirements of annual reviews in the CPSR program. Finally, as noted in ASPR 23-302(c), ACO consent to a subcontract "does not constitute a determination as to the acceptability of the subcontract price or the allowability of costs".

e. Consider the case problem as having arisen one level higher in the contracting hierarchy. Assume NAVORD is the procuring agency and that the same source selection procedure was used to award a prime contract.

(1) Is such a procedure consistent with Government procurement practice? Defend the procedure from the view of a PCO. Attack it from the view of Connectronix.

A PCO would experience great difficulty in defending a negotiated procurement in which no negotiations took place, unless he could demonstrate 1) adequate competition or accurate prior cost experience and, 2) insufficient time to utilize formal advertising. A government RFP would be required to appraise offerors of the criteria by which proposals would be evaluated. Without such information, an unsuccessful low offeror would very likely protest prior knowledge of the criteria by a winning offeror, if such appeared to be the case.

(2) If the Government had negotiated with each offeror, would you expect the outcome to have been different? How?

The opportunity for a different outcome would obviously be increased. Either unsuccessful proposal might have been modified through negotiation to the point where, after best and final offers, one of them best satisfied the Government's requirements.

(3) If the offerors knew that negotiations would precede award, what proposal strategies would they be forced to employ?

The question is open-ended, serving only to make the point that proposal strategy becomes a significant factor when negotiations can be anticipated.

f. What response should LCDR Brown make to the CNM letter?

Pyramid Products was awarded a subcontract by RSD on the basis of a source selection process which met all contractual requirements. RSD's judgement that the Connectronix proposal was unlikely to satisfy its requirements at the price quoted was within RSD's prerogatives. Indeed, the Government is paying for RSD's management services in decisions of this sort.

Upon analysis, the proposal of Wafburg Industries and that of the winning offeror were reasonably close from a price standpoint. Cost analysis performed by the NAVPRO substantiated the reasonableness of the price. Thus minimum requirements for competition were satisfied.

The RSD Request for Proposals reserved the right of the company to accept other than the lowest quotation. If

this statement aroused the curiosity of Connectronix as to how an award decision would be made, the RFP provided a means of making necessary inquiries. However, no such inquiries were made. It cannot be shown that RSD would not have adequately responded to such an inquiry. Indeed, the RSD source selection procedure was willingly explained during post-award debriefing. The RSD procedure was not particularly unique for this industry and was common knowledge among RSD suppliers.

The NAVPRO reply to CNM should "sustain" the award to Pyramid Products for the foregoing reasons. Some mention could be made of RSD's procurement performance as evidenced by past CPSR's.

This bid protest could have been avoided if RSD had been more explicit in describing evaluation criteria in its RFP. Such action might improve the quality of proposals and should be discussed with the contractor.

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number)

Subcontractors play a significant role in government procurement and are essential to an effective procurement process. Current estimates of DOD procurement show that at least 50 percent of prime contract funds are subcontracted. A series of three case studies has been developed to illustrate major concerns in subcontracting. The cases are designed to introduce the student to subcontracting and to the specific procedures and

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20. ABSTRACT

requirements of Contractor Procurement System Reviews, subcontract review and consent by the government, and subcontractor source selection. Particular attention has been paid to an examination of subcontracting from the point of view of both the prime contractor and the government as well. Teaching commentaries are included to assist the instructor.

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